



# RI TRANSPARENCY REPORT 2013/14

**DEXUS Property Group** 



An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

## About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the <u>PRI website</u>, ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2013-14 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory feedback are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

## Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six <u>Principles for Responsible Investment</u>. It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted. This results in some Principles not being explicitly highlighted. For instance, Principle 1 and 2 cannot be implemented without implementing Principle 3, but there are cases when Principle 3 is not explicitly highlighted.

| Symbol | Status  |
|--------|---|
| ✓      | The signatory has completed all mandatory parts of this indicator |
| Ø      | The signatory has completed some parts of this indicator          |
|        | This indicator was not relevant for this signatory                |
| -      | The signatory did not complete any part of this indicator         |
| В      | The signatory has flagged this indicator for internal review      |

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

## **PRI disclaimer**

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## Principles Index

| Organisational Overview |   |        |            |   |   | rin | General |   |   |          |
|-------------------------|---|--------|------------|---|---|-----|---------|---|---|----------|
| Indicator               | Short description                                   | Status | Disclosure | 1 | 2 | 3   | 4       | 5 | 6 |          |
| OO 01                   | Signatory category and services                     | ✓      | Public     |   |   |     |         |   |   | ✓        |
| OO 02                   | Headquarters and operational countries              | 1      | Public     |   |   |     |         |   |   | ✓        |
| OO 03                   | Subsidiaries that are separate PRI signatories      | ~      | Public     |   |   |     |         |   |   | ✓        |
| OO 04                   | Reporting year and AUM                              | 1      | Public     |   |   |     |         |   |   | ✓        |
| OO 05                   | Breakdown of AUM by asset class                     | 1      | n/a        |   |   |     |         |   |   | <b>√</b> |
| OO 06                   | How would you like to disclose your asset class mix | 1      | Public     |   |   |     |         |   |   | ✓        |
| OO 07                   | Segregated mandates or pooled funds                 | 8      | n/a        |   |   |     |         |   |   | ✓        |
| OO 08                   | Breakdown of AUM by market                          | 1      | Private    |   |   |     |         |   |   | <b>√</b> |
| OO 09                   | Additional information about organisation           | 1      | Private    |   |   |     |         |   |   | ✓        |
| OO 10                   | RI activities for listed equities                   | ₿      | n/a        |   |   |     |         |   |   | ✓        |
| 00 11                   | RI activities in other asset classes                | ✓      | Public     |   |   |     |         |   |   | ✓        |
| 00 12                   | Modules and sections required to<br>complete        | 1      | Public     |   |   |     |         |   |   | ✓        |

| Overarching Approach |  |        |            |   |   | rin | General               |   |   |   |
|----------------------|--|--------|------------|---|---|-----|-----------------------|---|---|---|
| Indicator            | Short description  | Status | Disclosure | 1 | 2 | 3   | 4                     | 5 | 6 |   |
| OA 01                | RI policy and other guidance documents                             | ✓      | Public     |   |   |     |                       |   |   | ✓ |
| OA 02                | Publicly available policies / documents                            | 1      | Public     |   |   |     |                       |   | 1 |   |
| OA 03                | Policy components and coverage                                     | ✓      | Public     | ✓ | ✓ |     |                       |   |   |   |
| OA 04                | Conflicts of interest  | ✓      | Public     |   |   |     |                       |   |   | ✓ |
| OA 05                | RI goals and objectives  | ✓      | Public     |   |   |     |                       |   |   | ✓ |
| OA 06                | Main goals/objectives this year                                    | ✓      | Private    |   |   |     |                       |   |   | ✓ |
| OA 07                | Governance, management structures and RI processes                 | ~      | Private    |   |   |     |                       |   |   | * |
| OA 08                | RI roles and responsibilities                                      | ✓      | Public     |   |   |     |                       |   |   | 1 |
| OA 09                | RI in performance management, reward and/or personal development   | ~      | Private    |   |   |     |                       |   |   | ~ |
| OA 10                | Collaborative organisations / initiatives                          | ✓      | Public     |   |   |     | <ul> <li>✓</li> </ul> | ✓ |   |   |
| OA 11                | Promoting RI independently   | 1      | Public     |   |   |     | ~                     |   |   |   |
| OA 12                | Dialogue with public policy makers or<br>standard setters          | ~      | Private    |   |   |     | ~                     | ~ | ~ |   |
| OA 13                | ESG issues in strategic asset allocation                           | ✓      | Private    | ~ |   |     |                       |   |   |   |
| OA 14                | Allocation of assets to environmental and social themed areas      | ~      | Private    | ~ |   |     |                       |   |   |   |
| OA 15                | ESG issues for internally managed assets not reported in framework | 8      | n/a        |   |   |     |                       |   |   | ~ |
| OA 16                | ESG issues for externally managed assets not reported in framework | 8      | n/a        |   |   |     |                       |   |   | ~ |
| OA 17                | RI/ESG in execution and/or advisory<br>services                    | 8      | n/a        | ~ | ~ |     |                       |   |   |   |
| OA 18                | Innovative features of approach to RI                              | ✓      | Private    |   |   |     |                       |   |   | × |
| OA 19                | Internal and external review and assurance of responses            | ~      | Private    |   |   |     |                       |   |   | ~ |



| Direct -  | rect - Property  |        |            |                       |   |   | Principle |   |                       |   |  |
|-----------|--|--------|------------|-----------------------|---|---|-----------|---|-----------------------|---|--|
| Indicator | Short description  | Status | Disclosure | 1                     | 2 | 3 | 4         | 5 | 6                     |   |  |
| PR 01     | Breakdown of investments by equity and<br>debt   | •      | Private    |                       |   |   |           |   |                       | ✓ |  |
| PR 02     | Breakdown of assets by management  | ✓      | Private    |                       |   |   |           |   |                       | ✓ |  |
| PR 03     | Largest property types   | 1      | Private    |                       |   |   |           |   |                       | ✓ |  |
| PR 04     | Description of approach to RI  | 1      | Private    | <ul> <li>✓</li> </ul> |   |   |           |   | <ul> <li>✓</li> </ul> |   |  |
| PR 05     | Responsible Property Investment (RPI) policy   | 1      | Public     | ~                     |   |   |           |   | ~                     |   |  |
| PR 06     | Fund placement documents and RI  | ✓      | Public     | <ul> <li>✓</li> </ul> |   |   | 1         |   | <ul> <li>✓</li> </ul> |   |  |
| PR 07     | Formal commitments to RI   | ✓      | Private    |                       |   |   | 1         |   |                       |   |  |
| PR 08     | Incorporating ESG issues when selecting investments  | ✓      | Public     | ~                     |   |   |           |   |                       |   |  |
| PR 09     | ESG advice and research when selecting investments   | ✓      | Private    | ~                     |   |   | ~         |   |                       |   |  |
| PR 10     | Examples of ESG issues in investment<br>selection process                                  | ~      | Public     | ~                     |   | ~ |           |   |                       |   |  |
| PR 11     | Types of ESG information considered in<br>investment selection                             | ~      | Private    | ~                     |   | ~ |           |   |                       |   |  |
| PR 12     | ESG issues impact in selection process   | ✓      | Private    | ✓                     |   |   |           |   |                       |   |  |
| PR 13     | ESG issues in selection, appointment and<br>monitoring of third-party property<br>managers | *      | Public     |                       |   |   | ~         |   |                       |   |  |
| PR 14     | ESG issues in post-investment activities   | 1      | Public     |                       | ✓ |   |           |   |                       |   |  |
| PR 15     | Proportion of assets with ESG targets that were set and monitored                          | ~      | Public     |                       | ~ | ~ |           |   |                       |   |  |
| PR 16     | Certification schemes, ratings and<br>benchmarks   | 1      | Private    |                       | ~ |   |           |   |                       |   |  |
| PR 17     | Proportion of developments and<br>refurbishments where ESG issues were<br>considered       | *      | Public     |                       | ~ |   |           |   |                       |   |  |
| PR 18     | Proportion of property occupiers that were engaged with                                    | 1      | Public     |                       | ~ |   |           |   |                       |   |  |
| PR 19     | Proportion of green leases or MOUs<br>referencing ESG issues                               | 1      | Private    |                       | ~ |   |           |   |                       |   |  |
| PR 20     | Proportion of assets engaged with on<br>community issues                                   | ✓      | Private    |                       | ~ |   |           |   |                       |   |  |
| PR 21     | ESG issues affected financial/ESG performance  | ✓      | Private    | ~                     | ~ |   |           |   |                       |   |  |
| PR 22     | Examples of ESG issues that affected<br>your property investments                          | ✓      | Private    | ~                     |   | ~ |           |   |                       |   |  |
| PR 23     | Disclosure of ESG information to public<br>and clients/beneficiaries                       | ✓      | Public     |                       |   |   |           |   | ~                     |   |  |



## **DEXUS** Property Group

**Reported Information** 

**Public version** 

**Organisational Overview** 

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| Basic Information  |         |                                  |                   |         |  |  |  |  |  |  |  |
|--|---------|----------------------------------|-------------------|---------|--|--|--|--|--|--|--|
| 00 01  | Mano    | latory                           | Gateway/Peering   | General |  |  |  |  |  |  |  |
| C  | 00 01.1 | Select the services you offer.   |                   |         |  |  |  |  |  |  |  |
| ✓ Fund management  |         |                                  |                   |         |  |  |  |  |  |  |  |
|  |         | % of assets under managemen      | t (AUM) in ranges |         |  |  |  |  |  |  |  |
|  |         | ○ <10%<br>○ 10-50%               |                   |         |  |  |  |  |  |  |  |
|  |         | ● >50%                           |                   |         |  |  |  |  |  |  |  |
| ☐ Fund of funds, manager of managers, sub-advised products |         |                                  |                   |         |  |  |  |  |  |  |  |
| □ Other, specify   |         |                                  |                   |         |  |  |  |  |  |  |  |
|  | 🗆 Execu | ition and advisory only services |                   |         |  |  |  |  |  |  |  |

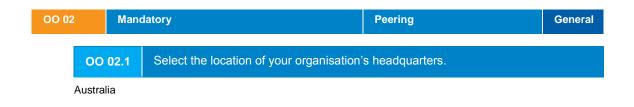
## OO 01.2 Additional information. [Optional]

DEXUS Property Group (DEXUS) is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With \$13.4 billion of assets under management as at 30 June 2013, DEXUS also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners.

DEXUS manages an office portfolio of 900,000 square metres across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners of office buildings in the Sydney CBD, Australia's largest office market.

DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code 'DXS' and is supported by more than 19,000 investors from 22 countries.

With over 25 years of experience in commercial property investment, development and asset management, DEXUS has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns to investors.





| 00 02.2 | Indicate the number of countries in which you have offices (including your headquarters).     |
|---------|---|
| • 1     |   |
| ○ 2-5   |   |
| ○ 6-10  |   |
| ○ >10   |   |
|         |   |
|         | Indicate the enproviments number of staff in your organization, in full time                  |
| 00 02.3 | Indicate the approximate number of staff in your organisation in full-time equivalents (FTE). |
| 00 02.3 |   |
| 234     | equivalents (FTE).  |

DEXUS manages its portfolio of assets from offices located in Sydney and Melbourne.

As at 30 June 2013 DEXUS employs 234 FTE property professionals across the Group. DEXUS property professionals are located in the key office and industrial investment markets of Sydney, where the majority of employees are located, Melbourne, Brisbane and Perth. DEXUS also employs retail management personnel to manage centres on behalf of DEXUS's Third Party clients in state capitals and regional centres around Australia.

All relevant headcount data is taken from each year's headcount report as at 30 June 2013, produced by DEXUS's People and Culture team. Further details regarding DEXUS's employee mix can be found at: http://crs.dexus.com/performance-pack/10/employees.

| OO 03 |    | Mand  | atory  | Descriptive                         | General |
|-------|----|-------|--|-------------------------------------|---------|
|       | 00 | 03.1  | Indicate whether you have subsidiaries signatories in their own right. | within your organisation that are a | lso PRI |
|       | (  | ) Yes |  |                                     |         |
|       | (  | No No |  |                                     |         |
|       |    | 00 03 | Additional information. [Optional]                                     |                                     |         |

DEXUS Property Group does not have any subsidiaries.

| 00 04 | 0 04 Mandatory |         | latory                                   | Gateway/Peering |  |  |  |  |  |
|-------|----------------|---------|--|-----------------|--|--|--|--|--|
|       | 00             | 04.1    | Indicate the year end date for your repo | rting year.     |  |  |  |  |  |
|       | 30             | 0/06/20 | 13                                       |                 |  |  |  |  |  |



## **OO 04.2** Indicate your total AUM at the end of your reporting year.

|               | trillions | billions | millions | thousands | hundreds |
|---------------|-----------|----------|----------|-----------|----------|
| Total AUM     |           | 13       | 400      | 000       | 000      |
| Currency      | AUD       |          |          |           |          |
| Assets in USD |           | 12       | 104      | 204       | 683      |

## **OO 04.3** Indicate the level of detail you would like to provide about your asset class mix.

• Approximate percentage breakdown to the nearest 5% (e.g. 45%)

 $\bigcirc$  Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

## **OO 04.4** Additional information. [Optional]

The DEXUS portfolio comprises quality Australian office and industrial properties in which DEXUS owns direct investments. DEXUS owns a total of \$7.3 billion of properties concentrated in core markets across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners of office buildings in the Sydney CBD, Australia's largest office market.

DEXUS partners with like-minded investors who value investment and property management expertise with best practice corporate governance principles. At 30 June 2013, DEXUS's Third Party Funds Management business comprises of \$6.1 billion of properties across retail, office and industrial asset classes.

| O 06 | Manda  | itory   | Descri                           | ptive                   | General |
|------|--------|---|----------------------------------|-------------------------|---------|
| 00   | D 06.1 | To contextualise your resp<br>disclose your asset class | ponses to the public, ir<br>mix. | ndicate how you would I | ike to  |
|      | • P    | ublish our asset class mix as p                         | percentage breakdown             |                         |         |
|      |        |   | Internally managed (%)           | Externally managed (%)  |         |
|      |        | Listed equity   | 0                                | 0                       |         |
|      |        | Fixed income – corporate                                | 0                                | 0                       |         |
|      |        | Fixed income – government                               | 0                                | 0                       |         |
|      |        | Fixed income – other                                    | 0                                | 0                       |         |
|      |        | Private debt  | 0                                | 0                       |         |
|      |        | Private equity  | 0                                | 0                       |         |



| Property           | 100 | 0 |
|--------------------|-----|---|
| Infrastructure     | 0   | 0 |
| Commodities        | 0   | 0 |
| Hedge funds        | 0   | 0 |
| Forestry           | 0   | 0 |
| Farmland           | 0   | 0 |
| Inclusive finance  | 0   | 0 |
| Cash               | 0   | 0 |
| Other (1), specify | 0   | 0 |
| Other (2), specify | 0   | 0 |

 $\bigcirc$  Publish our asset class mix as broad ranges

 $\bigcirc$  Publish our asset class mix as per attached file (the following image formats can be uploaded: .jpg, .jpeg, .png,.bmp and .gif)



8

## OO 06.2 Additional information. [Optional]

Through direct ownership and direct mandates DEXUS makes all asset-related investment decisions for the vast majority of funds under management. For the remaining sites, DEXUS is significantly involved in the investment decisions and monitoring of the physical property assets. DEXUS acts as a trusted advisor conducting extensive research regarding the suitability of assets, provides recommendations regarding buy-sell-hold-weight decisions, as well as acting as an active property manager for portfolio assets.

DEXUS does not appoint external investment managers to manage funds on its behalf. Rather, DEXUS partners with like-minded investors who value investment and property management expertise with best practice corporate governance principles. DEXUS manages and develops office, industrial and retail properties in Australia and New Zealand on behalf of its capital partners.

DEXUS Property Group partners with two private clients providing property management services in Australian and New Zealand including:

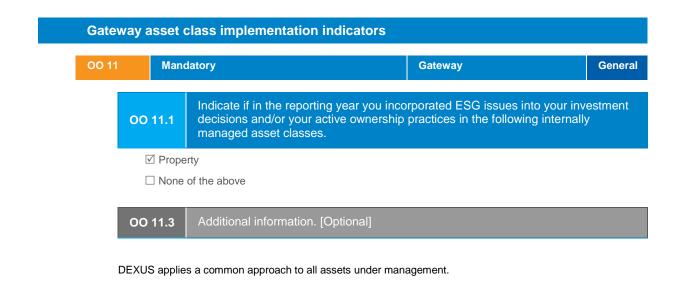
- A dedicated Australian property mandate managing a diversified \$1.6 billion property portfolio
- The Australian Industrial Partnership a \$0.5 billion industrial joint venture

The list below provides a break up of DEXUS's assets under management.

Asset Class / FUM (AUD\$bn)

- Direct ownership Office: AUD\$5.70 bn
- Direct ownership Industrial: AUD\$1.60 bn
- 3rd party portfolio Office: AUD\$2.10 bn
- 3rd party portfolio Industrial: AUD\$0.90 bn
- 3rd party portfolio Retail: AUD\$3.10 bn

Total FUM : AUD\$13.40 bn



| OO 12 Mandatory Gateway General |
|---------------------------------|
|---------------------------------|



00 12.1

The modules and sections that you will be required to complete are listed below. They are based on the percentages provided in your AUM breakdown and your responses to the gateway indicators. Note, you are only required to report on asset classes that represent 10% or more of your AUM. You may report voluntarily on any applicable modules or sections by selecting them from the list. Direct - Fixed Income and Infrastructure are always voluntary.

## Core modules

- ☑ Organisational Overview
- ☑ Overarching Approach (including assets which do not have a separate module)

## RI implementation directly or via service providers

Direct - Other asset classes with dedicated modules

Property

**Closing module** 

Closing module

**Note:** Please make sure your response to this indicator is complete and confirmed before you progress. Your response will determine which tailored modules and sections you will be presented with.



## **DEXUS** Property Group

**Reported Information** 

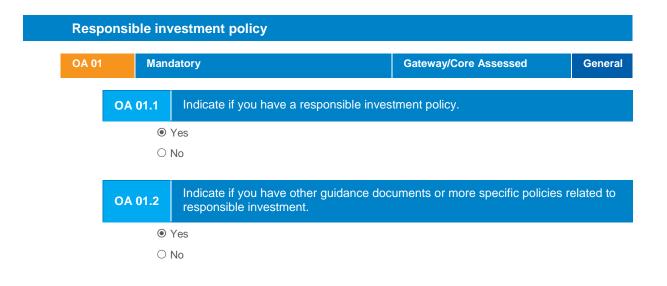
**Public version** 

**Overarching Approach** 

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Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]

### **Corporate Governance and Responsible Investment**

The DEXUS Board of Directors is ultimately responsible for risk management and is responsible for setting the tone, culture and objectives of risk and compliance management at DEXUS. This includes its approach to responsible investment which is encapsulated via the following corporate governance framework, which is implemented by the DEXUS Executive or Group Management Committee (GMC).

### Policies:

OA 01.3

The Board and GMC have developed several policies, which together form the set of requirements under which DEXUS and its employees conduct business and maintain governance. Those that relate specifically to responsible investment include:

- Director's and employee codes of conduct
- Diversity principles and diversity target
- Biodiversity policy
- Environmental statement
- Continuous disclosure
- Good faith reporting
- Risk management

#### Committees:

**Investment Committee:** DEXUS has established an Investment Committee which is tasked with reviewing all investment, divestment and development proposals concerning DEXUS and each of its managed funds and clients.

The Investment Committee recognises its fiduciary duty to put aside personal interest in favour of client interests. This committee uses a formal process and templates to collect and evaluate a wide range of risks, opportunities and their impacts relating to investment decisions for consideration prior to approving or endorsing each investment decision.

ESG issues and their impacts are evaluated alongside other key investment metrics thereby ensuring that CR&S issues are incorporated into investment decisions. This includes reviewing long-term asset plans and conducing appropriate environmental due diligence or acquisitions and disposals so that ESG risks can be identified and effectively managed.

The Investment Committee reports directly to the GMC.

**Board Audit, Risk and Sustainability Committee:** DEXUS has established a Board Audit, Risk and Sustainability Committee that is responsible overseeing group risk management including implementation and management of sustainability practices and initiatives throughout DEXUS, as well as overseeing ongoing disclosure of sustainability information.

The Board Audit, Risk and Sustainability Committee reports directly to the DEXUS Board.

**Compliance Risk, Ethics and Sustainability Committee:** DEXUS management formally report to the Board Audit, Risk and Sustainability Committee through the Compliance, Risk, Ethics and Sustainability Committee.

This committee provides a direct link between business operations and corporate governance and provides the Board Audit, Risk and Sustainability Committee and the Board with assurance that major business risks have been identified and assessed, and effective plans are in place to address and

manage the risks in accordance with the Risk Management and CR&S Frameworks.

DEXUS has based the frameworks described below on the United Nations Global Compact and the UN Guiding Principles on Business and Human Rights. In addition, DEXUS added input from the Property Council of Australia's Principles for Fair Contracting (

http://www.propertyoz.com.au/tas/library/06%20PCA%20Principles%20For%20Fair%20Contracting.pdf).

#### **Risk Management Framework**

Responsible investment involves a structured process for mitigating risks associated with ESG issues.

DEXUS has developed a comprehensive Risk Management Framework with the aim of ensuring that risks are identified and managed in a consistent, systematic, credible and timely way. Its purpose being to minimise the impact of unexpected and undesirable events and to provide the ability to consider opportunities as they arise.

DEXUS recognises that risks come from numerous sources, driven by both internal and external factors. The four main sources of risk faced by DEXUS include:

- Strategic risks
- Operational risks
- Compliance risks
- Financial risks

The Risk Management Framework identifies key DEXUS stakeholders and their role in risk management, the required process for identifying, analysing and evaluating risks, and finally risk treatment and monitoring.

This framework is built into DEXUS's daily operations in the form of accountabilities, standard operating procedures, tools and templates, management oversight, collaboration and knowledge sharing, and audit and assurance.

#### **CR**&S Management Framework

DEXUS has developed a CR&S framework (http://crs.dexus.com/) that incorporates the UNPRI 'six principles' relating to responsible investment and active property management. This framework incorporates six key stakeholder groups, and forms the basis from which sustainability commitments and targets are formed, and how achievement is measured.

Embedded in DEXUS's CR&S framework is a commitment to maintaining the highest standards of governance and business ethics, delivered through a service excellence approach to tenants and capital partners, the development of its people, supplier partnerships and engagement within communities.

The CR&S Framework is structured around the following CR&S principles:

- Taking a holistic view of every aspect of DEXUS's operations and incorporating CR&S initiatives throughout DEXUS
- Aligning CR&S initiatives with stakeholder expectations, corporate objectives and values
- Providing transparent reporting of CR&S activities and progress
- Demonstrating leadership in CR&S by maintaining the highest standards of corporate governance, ethics, environmental and social responsibility.



## Investors

DEXUS is focused on creating investor value by delivering operational excellence through active property, asset and development management resulting in low risk sustainable returns. DEXUS's approach to economic sustainability is based on two principles:

#### 1. Sustained financial performance

DEXUS is committed to delivering consistently strong financial performance for its investors which, in turn, enables it to invest in initiatives that deliver improved sustainability performance.

DEXUS is a long-term owner, manager and developer of property and conducts regular asset management strategy reviews to assess each property's long-term value.

One consideration in the assessment of the financial sustainability of each property is that they continue to deliver against revenue targets, minimise outgoings and grow in capital value, thereby ensuring long-term retention.

2. Sustainability adds value

Operating sustainably adds to the overall business by:

- Enhancing income through rental premiums being paid for sustainable building
- Reducing operations and maintenance costs
- Improving tenant comfort and amenity
- Enhancing DEXUS's business reputation
- Boosting staff morale and productivity

This long-term contribution to the bottom-line is achieved through appropriate and ongoing investment in sustainability and by taking a systematic approach to responsible investment.

Accordingly, DEXUS has established the following business objectives:

- To achieve high performance environmental standards in its existing property portfolio
- To develop properties that are sustainable and minimise resource consumption
- To increase stakeholder awareness of the benefits of investing in sustainability and improved building performance

These objectives guide the development of DEXUS's sustainability practices and initiatives.

## Tenants

As one of DEXUS's key stakeholders, tenants/customers' needs are at the forefront of DEXUS's actions. DEXUS engages with tenants in multiple ways to gain a deep understanding of their requirements and plans in order to anticipate and meet tenants' requirements and deliver service excellence whilst incorporating sustainability ideals.

DEXUS's responsible investment practices include both design and operations. DEXUS considers how each investment will:

- Enhance the liveability and suitability of the building and tenant workplaces
- Mitigate future maintenance and operational costs
- Enhance retention options
- Impact the delivery of or adherence to lease obligations under any green leasing arrangements
- Improve the carbon management performance of tenants and encourage innovation



## Suppliers

DEXUS seeks to engage with like-minded suppliers concerning sustainability issues and practices. DEXUS's suppliers vary in size and scale, and their capacity to integrate sustainable practices into their operations also varies. As a result DEXUS takes an individual and long term view to managing and maintaining supplier relationships.

DEXUS communicates its expectations to all suppliers and requires each one to operate in line with a Supplier Code of Conduct as well as understand DEXUS's procurement requirements and commitments outlined in its Sustainable Procurement Policy.

With each supplier engagement DEXUS seeks to ensure that investment considerations:

- Address impact on supply chains and adhere to DEXUS's Supplier Code of Conduct including materials, contractors, consultants and other professional services.
- Are in line with recognised and accepted labour and employment practices where that investment
  results in employment or engagement of suppliers, contractors and professional service providers

### Employees

One of DEXUS's most significant investments is within its employees. DEXUS strives to recruit and retain staff who with the right combination of expertise, experience, ethics and professionalism. DEXUS is believes that decision making is enhanced by diversity and seeks to maintain a socially and culturally diverse workplace that is tolerant, flexible and adaptive to the needs of the environment.

DEXUS also strives to:

- Achieve gender equality and equal opportunities
- Eliminate discrimination, harassment and bullying
- Provide a positive work culture that promotes excellence, integrity, empowerment, innovation and collaboration.

## Community

DEXUS accepts that is has a social responsibility to invest in community issues and to incorporate community considerations into its asset investment plans For FY3 DEXUS developed targets relating to staff donation of time for volunteering and support of community projects. DEXUS also takes great strides to incorporate community issues in regards to investment decisions, including:

- Any community / social / media risks
- Community / employment mobility in the short and long term
- Any opportunities or threats to public infrastructure
- The impact on the disabled and opportunities to enhance social inclusion

And have regard to appropriate stakeholder consultation and provision of service excellence in dealings with the wider business, social and residential community.

## Environment

DEXUS's environmental strategy aim to minimise the overall impact of its operations, both in the development of new properties and in the management of existing properties.

DEXUS's active management approach involves continual monitoring of environmental performance with the aims of identifying ways to save energy and water, reduce greenhouse gas emissions, and



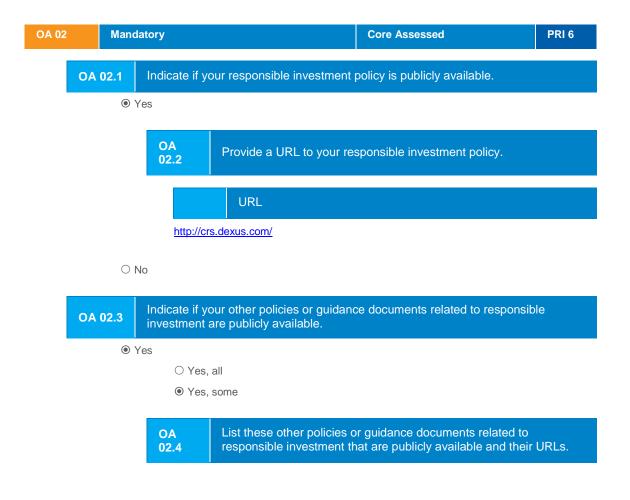
reduce the amount of waste transported to landfill.

DEXUS sets challenging targets for environmental performance down to a property level, and challenges its Property Managers to continually improve results. DEXUS is constantly evaluating new technologies and operational practices in order to realise further performance gains, and takes a long term view in regards to investing significant capital funds to improve poor performing buildings.

Key environmental objectives include:

- Maximise NABERS (energy and water) performance of the asset
- Exceed benchmarks including GHG emissions, waste, indoor environmental quality, transport and social performance
- Identify opportunities to enhance both environmental and social performance
- Set environmental performance targets for all investments
- Comply with applicable legislation
- Assess biodiversity risks and opportunities to create a net positive benefit
- Assess the impacts of climate change and extreme weather events and address appropriate mitigation and adaptation actions
- Prepare strategic improvement plans for each property that quantifies the ratings enhancement and energy saved, and the required investment.

Key environmental metrics are evaluated for new and existing properties in reference to DEXUS environmental targets and objectives. In some cases this may present an opportunity to re-invigorate a poorly performing building, whilst in other cases an investment's failure to meet DEXUS's environmental principles may prevent an otherwise worthwhile transaction from proceeding.





| Policy or document name                | URL   |
|--|---|
| Directors Code of Conduct              | http://dexus.com/corporate-governance/3/board-policies              |
| Diversity Principles / Target          | http://dexus.com/corporate-governance/3/board-policies              |
| Employee Code of Conduct               | http://dexus.com/corporate-governance/40/corporate-<br>policies     |
| Environmental Statement                | http://dexus.com/corporate-governance/40/corporate-<br>policies     |
| Board Committees Terms of<br>Reference | http://www.dexus.com/corporate-governance/1000/board-<br>committees |
| Risk Management                        | http://dexus.com/corporate-governance/40/corporate-<br>policies     |

 $\bigcirc$  No

## OA 02.5 Additional information. [Optional]

DEXUS publicly discloses its governance framework on its website which is available at http://www.dexus.com. Within this framework DEXUS articulates its approach to responsible investment. Key public documents include:

- Public compliance and corporate policies
- DEXUS's environment statement
- Codes of Conduct for Directors and employees
- Board Committees and their terms of reference
- DEXUS's CR&S framework
- Sustainable Procurement Policy and Supplier Code of Conduct

In addition, DEXUS maintains a host of internal documents relating to the implementation of responsible investment including policies, risk management framework documents, operations manuals, tools and checklists.

DEXUS periodically reviews its public and internal content to seek an appropriate balance between corporate disclosure and internal management practices. At present DEXUS does not plan to publish these internal governance and management documents.





| Policy components/types  | Coverage by AUM  |
|--|--|
| ☑ Policy setting out your overall approach                         | Applicable policies cover all AUM                      |
| ☑ Engagement/active ownership policy                               | $\bigcirc$ Applicable policies cover a majority of AUM |
| $\ensuremath{\boxdot}$ Specific guidelines on corporate governance | $\bigcirc$ Applicable policies cover a minority of AUM |
| ☑ Specific guidelines on environmental issues                      |  |
| ☑ Specific guidelines on social issues                             |  |
| □ Asset class-specific guidelines                                  |  |
| Screening/exclusion policy   |  |
| □ Other, specify   |  |
| □ Other, specify   |  |

OA 03.2

Comment on any variations or exceptions in the coverage of your responsible investment policy. [Optional]

## Guidelines for specific asset classes

DEXUS does not maintain responsible investment policies for specific asset types.



#### **Overall Approach**

DEXUS's overall approach to responsible investment is described within the following policies and committees, which form its corporate governance framework.

#### Policies:

The Board and Group Management Committee (GMC) have developed several policies, which together form the set of requirements under which DEXUS and its employees conduct business and maintain governance. Those that relate specifically to responsible investment include:

- Director's and employee codes of conduct
- Diversity principles and diversity target
- Biodiversity policy
- Environmental statement
- Continuous disclosure
- Good faith reporting
- Risk management

### Committees:

**Investment Committee:** DEXUS has established an Investment Committee which is tasked with reviewing all investment and divestment proposals concerning DEXUS and each of its managed funds and clients.

The Investment Committee recognises its fiduciary duty to put aside personal interest in favour of client interests. This committee uses a formal process and templates to collect and evaluate a wide range of risks, opportunities and their impacts relating to investment decisions for consideration prior to approving or endorsing each investment decision.

ESG issues and their impacts are evaluated alongside other key investment metrics thereby ensuring that CR&S issues are incorporated into investment decisions. This includes reviewing long-term asset plans and conducing appropriate environmental due diligence or acquisitions and disposals so that ESG risks can be identified and effectively managed.

The Investment Committee reports directly to the GMC.

**Board Audit, Risk and Sustainability Committee:** DEXUS has established a Board Audit, Risk and Sustainability Committee that is responsible overseeing group risk management including implementation and management of sustainability practices and initiatives throughout DEXUS, as well as overseeing ongoing disclosure of sustainability information.

The Board Audit, Risk and Sustainability Committee reports directly to the DEXUS Board.

**Compliance Risk, Ethics and Sustainability Committee:** DEXUS management formally report to the Board Audit, Risk and Sustainability Committee through the Compliance, Risk, Ethics and Sustainability Committee.

This committee provides a direct link between business operations and corporate governance and provides the Board Audit, Risk and Sustainability Committee and the Board with assurance that major business risks have been identified and assessed, and effective plans are in place to address and manage the risks in accordance with the Risk Management and CR&S Frameworks.



Further information regarding DEXUS's corporate governance can be found on its website at: http://dexus.com/about-us/2/corporate-governance and within the DEXUS 2013 Annual Review, pages 62 to 65, which can be found at:

http://dexus.com/upload/asxannouncements/2013%20DEXUS%20Annual%20Review.pdf.

## **Proxy Voting**

DEXUS's strategy focuses on direct property investment and active management and as a result there is no historical basis for exercising voting rights.

## Engagement and active ownership - CR&S Management Framework

DEXUS has developed a CR&S framework that incorporates the UNPRI 'six principles' relating to responsible investment and active property management. This framework forms the basis from which sustainability commitments and targets are formed, and how achievement is measured.

Embedded in DEXUS's CR&S framework is a commitment to maintaining the highest standards of governance and business ethics, delivered through a service excellence approach to tenants and capital partners, the development of its people, supplier partnerships and engagement within communities.

The CR&S Framework is structured around the following CR&S principles:

- Taking a holistic view of every aspect of DEXUS's operations and incorporating CR&S initiatives throughout DEXUS
- Aligning CR&S initiatives with stakeholder expectations, corporate objectives and values
- Providing transparent reporting of CR&S activities and progress
- Demonstrating leadership in CR&S by maintaining the highest standards of corporate governance, ethics, environmental and social responsibility.

Please refer to the DEXUS website (http://crs.dexus.com/) for further information regarding the CR&S framework, commitments and achievements.

## Guidelines on corporate governance - Risk Management Framework

Responsible investment involves a structured process for mitigating risks associated with ESG issues.

DEXUS has developed a comprehensive Risk Management Framework with the aim of ensuring that risks are identified and managed in a consistent, systematic, credible and timely way. Its purpose being to minimise the impact of unexpected and undesirable events and to provide the ability to consider opportunities as they arise.

The Risk Management Framework identifies key DEXUS stakeholders and their role in risk management, the required process for identifying, analysing and evaluating risks, and finally risk treatment and monitoring.

This framework is built into DEXUS's daily operations in the form of accountabilities, standard operating procedures, tools and templates, management oversight, collaboration and knowledge sharing, and audit and assurance.

A Risk Management Framework guidance document provides instructions to all staff in regards to understanding risks, identifying, analysing and evaluating them, as well as each staff



member's responsibilities. All staff receive induction training that includes review and assessment of this guide.

### Guidelines on social issues

DEXUS invests responsibly in its people and takes great pride in providing a safe, flexible and enjoyable work environment. Staff are guided on social issues within a number of DEXUS policies, including:

- Employee code of conduct
- Diversity Principles
- Press and media policy
- Work, Health, Safety and Liability Policy
- Privacy Policy
- Security Trading Policy

All staff are provided with an Employee Handbook, which describes DEXUS's policies and position regarding a range of social issues, including:

- Workplace behaviour
- Health and safety
- Discrimination, harassment, bullying and victimisation
- Drugs and alcohol
- Civic duty, including jury service, army reserve training, etc.
- Community engagement and volunteering
- Counselling and employee advisory support

The DEXUS intranet provides additional guidance to staff regarding the use of policies, process workflows, escalation processes and how governance is maintained.

In particular, DEXUS is a strong advocate of managing mental health issues and supports its staff via a structured counselling and employee advisory support services, that include:

- Presentations to staff regarding mental health issues; their identification and management
- Providing staff with ongoing support via an external counselling and advisory service for employees and their families, offering professional assistance for personal or work related problems. The confidential service is provided by qualified consultants who are completely independent of DEXUS and is aimed at enhancing your wellbeing, both personally and in the workplace.

DEXUS support goes beyond minimum compliance and reflects DEXUS's commitment to the well-being of its staff.

## Screening/exclusion policy

DEXUS applies ESG related screening and exclusion practices in two key areas:

- Investment Committee potential investments are screened as part of a rigorous due diligence process that includes environment related disqualification criteria. For example DEXUS is adverse to acquiring property with the presence of contaminated land. Should a potential investment be found to be impacted by contaminated land, determination as to whether DEXUS will acquire the site will take into consideration the extent of contamination and the cost of remediation.
- 2. **Sustainable Procurement** as part of all supplier engagements, DEXUS requests that suppliers agree with its Sustainable Procurement Policy and agree to abide by its Supplier Code of Conduct. Suppliers that cannot make this commitment are excluded from further evaluation. ESG issues are also reviewed and ranked as part of the tender evaluation



process and may affect a potential supplier's ranking. Copies of DEXUS's sustainable procurement policy and code of conduct can be found at: http://crs.dexus.com/crs-library/18/cr%26s-policies.

| OA 04 |  | Mandator       | гу   |                   | Core Assessed               | General            |  |  |
|-------|--|----------------|--|-------------------|-----------------------------|--------------------|--|--|
|       | <b>OA</b> 0  | in             | dicate if your organisat<br>the investment process   |                   | y on managing potential cor | flicts of interest |  |  |
|       | ۲  | Yes            |  |                   |                             |                    |  |  |
|       | <b>OA 04.2</b> Describe your policy on managing potential conflicts of interest in the investment process. [Optional]  |                |  |                   |                             |                    |  |  |
|       | DEXUS maintains two internal compliance policies relating to personal and corporate conflicts of interest. The purposes of these are to:   |                |  |                   |                             |                    |  |  |
|       | <ol> <li>assist employees to understand what constitutes a conflict of interest, and</li> <li>to describe the process for effectively managed conflicts.</li> </ol>  |                |  |                   |                             |                    |  |  |
|       | Conflicts may arise in a variety of situations, including:   |                |  |                   |                             |                    |  |  |
|       | <ul> <li>Related party dealings</li> <li>Allocating property transactions amongst clients</li> <li>Tenant conflicts</li> <li>Transfer of assets between schemes or clients</li> </ul>  |                |  |                   |                             |                    |  |  |
|       | DEXUS recognises that potential conflicts of interest may arise during the investment process, and as such these policies are referenced within DEXUS' internal 'Investment Procedures Compliance Policy', which sets out the procedures to be used to in the investment process to ensure that acquisitions and divestments are appropriate, permitted and are in accordance with the client objectives and strategies. |                |  |                   |                             |                    |  |  |
|       | All conflicts whether real or potential conflicts must be reported to DEXUS'<br>Compliance, Risk and Governance team as soon as possible to ensure necessary<br>controls are put in place to manage the conflict effectively. Controls may include:  |                |  |                   |                             |                    |  |  |
|       |  | 5.<br>6.<br>7. | Conducting the transacti<br>Removal of conflicted sta<br>Establishing information<br>interests of their client | aff/team from the |                             | 3                  |  |  |

DEXUS maintains a Conflict of Interest Register documenting related party transactions. The register is designed to provide a central record of all material related party transactions so that potential or actual conflicts may be identified and appropriate management processes put in place.

 $\bigcirc$  No



## OA 04.3 Additional information. [Optional]

As part of meeting their annual KPIs all DEXUS staff required to demonstrate a working knowledge of these policies.

| Objectives and strategies   |   |                 |   |   |             |
|---|---|-----------------|---|---|-------------|
| OA 05   | Ma  | andatory        |   | Gateway/Core Assessed                                   | Genera      |
|   | OA 05.1 Indicate if your organisation sets objectives for its responsible investment activities |                 |   |   |             |
|   | ● Yes   | S               |   |   |             |
| <b>OA 05.2</b> Indicate how frequently your organisation sets or revises objectives for responsible investment. |   |                 |   |   | ectives for |
|   | At least once per year  |                 |   |   |             |
|   | $\bigcirc$ Less than once per year  |                 |   |   |             |
|   |   | OA 05.3         | Indicate how frequently your of against its objectives for response | organisation formally reviews pe<br>onsible investment. | rformance   |
| Quarterly   |   |                 |   |   |             |
|   |   | ⊖ Bianr         | nually  |   |             |
|   |   | ⊖ Annu          | ally  |   |             |
|   |   | ○ Every         | v two years or less   |   |             |
|   |   | $\odot$ It is n | ot reviewed   |   |             |
|   | ○ No  |                 |   |   |             |



### **Setting Objectives**

Each year DEXUS sets, reviews and updates corporate objectives within its responsible investment framework. Commitments are typically defined with respect to each of six key focus areas (i.e. investors, tenants, employees, community, suppliers and environment) and may relate to:

- Setting and achieving operational performance targets such as financial targets or building efficiency benchmarks
- Initiatives to improve collaboration or joint commitment with stakeholders such as suppliers, customers, and industry peers
- Enhancements to processes, governance mechanisms or internal efficiency
- Implementing ESG projects at specific properties within the portfolio
- Broader ambitions to make a material impact on staff, the community and/or the environment.

Further information regarding DEXUS's FY13 commitments and progress can be found within the: DEXUS 2013 Annual Review, pages 18-21, which is available at http://dexus.interactiveinvestorreports.com/2013annualreview/.

Commitments are set at the close of each financial year following input from key DEXUS stakeholders.

## **Review Performance**

DEXUS management reviews performance against its objectives at least quarterly. During FY13 the DEXUS Board met eight times in which the following governance reporting, discussion and decision occurs:

- Chief Executive Officer's report
- Company Secretary's report
- Minutes of Board Committee meetings
- Reports on asset acquisitions, disposals and developments
- Management presentations
- Other business where Directors can raise any topical matters

## **Reporting Progress**

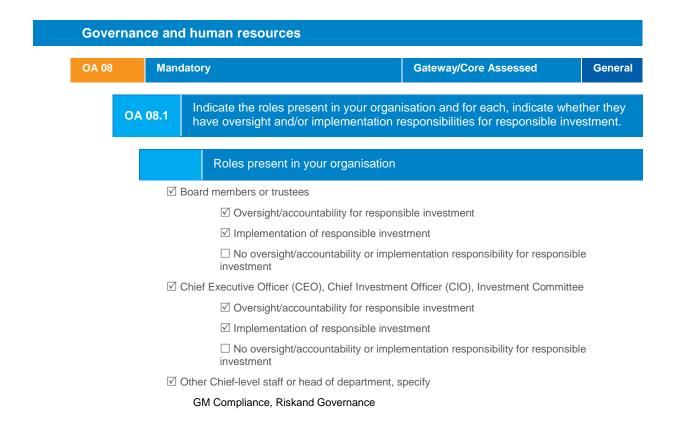
DEXUS reports on select key commitments every six months, and reports comprehensively on all commitments within its Annual Review, in line with requirements to transparently monitor and report performance outlined within DEXUS's Environmental Statement.

DEXUS maintains an internal monitoring and reporting program to continually review progress against its ESG commitments. Environmental performance is under ongoing review through the following forums:

- Daily monitoring of building consumption trends by Building Managers
- Weekly sustainability team meetings involving stakeholders from DEXUS and its managing agent
- Monthly reporting of NABERS ratings activity and tracking of rolling portfolio targets
- Monthly review of energy and water billing data and investigation into adverse consumption trends
- Formal updates to the DEXUS Board (via Committees) every quarter.

DEXUS measures its success in the following ways:

- Completion of commitment milestones
- Achievement of targets
- Feedback from tenants and customers
- Awards and external recognition
- Inclusion to and rankings within sustainability and leadership indices





- Oversight/accountability for responsible investment
- Implementation of responsible investment
- $\hfill\square$  No oversight/accountability or implementation responsibility for responsible investment
- ☑ Portfolio managers
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - $\hfill\square$  No oversight/accountability or implementation responsibility for responsible investment
- ☑ Investment analysts
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - $\hfill\square$  No oversight/accountability or implementation responsibility for responsible investment
- Dedicated responsible investment staff
- Z External managers or service providers
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment

 $\hfill\square$  No oversight/accountability or implementation responsibility for responsible investment

☑ Other role, specify

## Operations and Sustainability Manager

- Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment

 $\hfill\square$  No oversight/accountability or implementation responsibility for responsible investment

☑ Other role, specify

#### EGM, Investor Relations, Marketing & Communications

- ☑ Oversight/accountability for responsible investment
- Implementation of responsible investment

 $\hfill\square$  No oversight/accountability or implementation responsibility for responsible investment

## **OA 08.3** Additional information. [Optional]

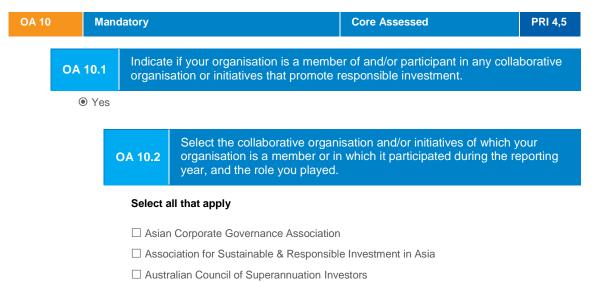
All operations and management staff are obligated to implement responsible investment practices which are built into DEXUS's risk management and CR&S frameworks.

All operations and management staff have accountability for responsible investment as part of their personal KPIs. These KPIs relate to understanding and adhering to DEXUS policies and procedures.

The Board, its endorsed committees, CEO, and Executive General Managers have primary responsibility for oversight of responsible investment.

## Promoting responsible investment



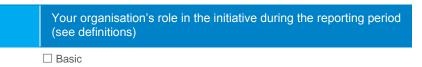


CDP Climate Change



DEXUS is a signatory to CDP Climate Change and reports against its framework annually. DEXUS attends industry events including CDP's Awards Presentation and engages directly with CDP Australia.

- CDP Forests
- □ CDP Water
- CFA Institute Centre for Financial Market Integrity
- Council of Institutional Investors (CII)
- Eumedion
- Extractive Industries Transparency Initiative (EITI)
- □ Global Investors Governance Network (GIGN)
- ☑ Global Real Estate Sustainability Benchmark (GRESB)



- Moderate
- ☑ Advanced



Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

DEXUS is a GRESB Company Member, as well as being a member of GRESB's Asia-Pacific Benchmarking Committee. DEXUS is an active spokesperson for the initiative and maintains a direct working relationship with GRESB's Asia-Pacific office.

DEXUS actively contributes to property related discussions and assisted with prepared papers and joint statements.

DEXUS report its performance annually and attends results events.

- □ Institutional Investors Group on Climate Change (IIGCC)
- □ Interfaith Center on Corporate Responsibility (ICCR)
- □ International Corporate Governance Network (ICGN)
- ☑ Investor Group on Climate Change, Australia/New Zealand (IGCC)

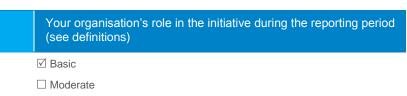
| Your organisation's role in the initiative during the reporting period (see definitions)                 |
|--|
| Basic  |
| ☑ Moderate   |
| □ Advanced   |
|  |
| Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional] |

DEXUS is a member of the IGCC and participates in its Property Working Group. Through this working group, DEXUS actively contributes to property related discussions and assists IGCC with understanding and progressing key investor issues relating to property risk management. DEXUS provides general support for the initiative in various non-public forums.

□ Investor Network on Climate Risk (INCR)/CERES

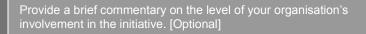
□ Local Authority Pension Fund Forum

Principles for Responsible Investment



□ Advanced





DEXUS is a signatory to UNPRI and reports is implementation of the six principles annually.

 $\Box$  Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify

□ Shareholder Association for Research and Education (Share)

□ United Nations Environmental Program Finance Initiative (UNEP FI)

□ United Nations Global Compact

☑ Other collaborative organisation/initiative, specify

Green Building Council of Australia

Your organisation's role in the initiative during the reporting year (see definitions)

□ Basic

□ Moderate

☑ Advanced



## Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

The Green Building Council of Australia (GBCA) is a national, not-for-profit organisation whose key objectives are to drive the transition of the Australian property industry towards sustainability by promoting green building programs, technologies, design practices and operations as well as the integration of green building initiatives into mainstream design, construction and operation of buildings.

DEXUS is a member of the GBCA and during FY13 and actively supports the GBCA's aims and its Green Star building rating methodologies. During this time DEXUS has:

- Assisted with prepared papers and joint statements
- Acted as an active spokesperson
- Supported to some degree in leadership and/or in preparation of documentation
- Contributed to the organisation or content of events organised by the group
- Provided general support for the initiative in various non-public forums

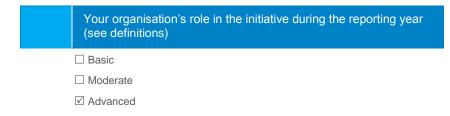
DEXUS rates key development projects using the Green Star design rating tools, and was a participant on the working group that developed the Green Star Performance methodology.

As part of this working group, DEXUS assists in drafting and shaping credits to become the tool's performance metrics which ensure buildings are managed to reduce greenhouse gas emissions, reduce waste to landfill, increase biodiversity, reduce water consumption and save energy in their operations.

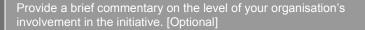
During FY13 DEXUS staff attended a stakeholder pre-release for Green Star Performance and DEXUS is currently in the preliminary stages of trialling the Green Star Performance methodology.

I Other collaborative organisation/initiative, specify

## IPD







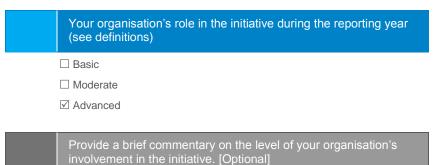
DEXUS provides sponsorship to IPD in regard to its Australia Green Property Index.

First launched in early 2011, the IPD Australia Green Property Index provides the market with the first tool to measure the impact of Green Star, NABERS Energy and NABERS Water ratings on investment performance.

In addition DEXUS contributes to IPD by providing property information for inclusion in the IPD Australia Quarterly Digest and the Pooled Property Fund Index.

☑ Other collaborative organisation/initiative, specify

Better Building Partnerships, City of Sydney



DEXUS is a founding member of the Sydney-based Better Building Partnerships (BBP). The Partnership aims to develop collaborative solutions and initiatives to overcome sustainability related barriers and achieve substantial improvements in the environmental performance of their buildings.

DEXUS is part of the Leadership Group that forms the strategy for the Better Building Partnerships initiative.

DEXUS also is a member of five BBP technical working groups, each of which focuses on a specific challenge facing the commercial and public sector property industry: energy, water, waste, tenant engagement and benchmarking. It is through these working groups that the BBP's solutions and initiatives are implemented. DEXUS is a regular attendee and assists with developing BBP's position on a range of issues. DEXUS also acts as an active spokesperson.

☑ Other collaborative organisation/initiative, specify

Property Council of Australia



## Your organisation's role in the initiative during the reporting year (see definitions)

Basic

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

The Property Council of Australia (PCA) is the leading advocate for Australia's \$600 billion property industry. It counts the bulk of the nation's major investors, property owners and developers - as well as the industry's professional service and trade providers - amongst its members.

DEXUS is a corporate member of the PCA and plays a leading role in progressing group initiatives regarding advocacy, policy positions, market analysis.

DEXUS maintains extensive representation across various PCA committees including:

- Darren Steinberg, DEXUS Chief Executive Officer is National President and chair of the PCA's Board of Directors. This group decides the organisation's strategic direction, advocacy priorities, policy positions and budgeting, in close consultation with industry.
- Craig Mitchell, DEXUS Chief Financial Officer, is Chair of the PCA International Capital Markets Division. In this capacity, he was instrumental in driving the standardisation of performance reporting for real estate organisations. The PCA's Voluntary Best Practice Guidelines for Disclosing Funds for Operations (FFO) and Adjusted Funds from Operations (AFFO) was launched in June 2013. These ground-breaking guidelines set a voluntary framework for determining FFO and AFFO as the standard performance measures in the Australian marketplace. boosting transparency by enabling the comparability of property fund manager performance reports. The guidelines complement the audited financial accounts of Australian listed real estate organisations and give industry, investors and analysts a common language to talk about performance. The adoption of FFO and AFFO as standard voluntary performance metrics will also facilitate more meaningful comparisons with international property groups and increase the confidence of investors, analysts and government in Australia's real estate sector and attract global capital to Australian property.
- An additional 17 DEXUS staff members participating in 29 roles within committees, roundtables and working groups.

 $\bigcirc$  No



33

<sup>□</sup> Moderate

Advanced

## **OA 10.3** Additional information. [Optional]

DEXUS participates in and supports a number of key CR&S memberships in Australia and internationally. DEXUS regularly reviews these memberships for relevant to its business and alignment with its corporate values.

A list of current DEXUS memberships and affiliations can be found at: http://crs.dexus.com/crsoverview/6/our-memberships-and-affiliations.

| OA 11 | Ν  | landatory |  | Core Assessed  | PRI 4     |
|-------|--|-----------|--|--|-----------|
|       | OA 11.   |           | e if your organisation promotes re<br>prative initiatives.       | esponsible investment, independe   | ntly of   |
|       | • Y  | es        |  |  |           |
|       |  | OA 11.2   |  | actions your organisation has take<br>nt, independently of collaborative i |           |
|       | Provided or supported education or training programmes for clients, investment<br>managers, broker/dealers, investment consultants, legal advisers or other investm<br>organisations |           |  |  |           |
|       | $\Box$ Provided financial support for academic or industry research on responsible investment  |           |  |  | ble       |
|       |  |           | Encouraged better transparency and cross the investment industry | disclosure of responsible investment                                       | practices |
|       |  | V         | Spoke publicly at events and conferent                           | ences to promote responsible investme                                      | ent       |
|       |  | V         | I Wrote and published in-house resea                             | rch papers on responsible investment                                       |           |
|       |  |           | Encouraged the adoption of the PRI                               |  |           |
|       |  |           | ] Other, specify   |  |           |
|       | ΟN   | 0         |  |  |           |



### **Provided or supported Education**

DEXUS research team is very active in developing market trends and promoting information to tenants and investors to support responsible investment decisions and identify risks and opportunities relating to investments and their local markets.

During FY13, DEXUS held periodic research briefings (or Information Sessions) for tenants and investors regarding office occupation trends. Tenants and investors are DEXUS's major stakeholders and it is important to keep them informed of property and leasing trends, as well as an overview of what's happening in the market.

DEXUS's General Manager, Research maintains an active involvement with the Property Council of Australia and is the Chair of the Property Investment and Finance Education Committee and a member of the National Education Committee. Through this association, DEXUS plays a leading role in developing course content, overseeing the running of courses and determining the outcomes of courses held. DEXUS is in a position to leverage its expertise and that of its staff to resolve course content issues.

## **Transparency and Disclosure**

Craig Mitchell, DEXUS Chief Financial Officer, is Chair of the Property Council of Australia (PCA) International Capital Markets Division. In this capacity, he was instrumental in driving the standardisation of performance reporting for real estate organisations. The PCA's Voluntary Best Practice Guidelines for Disclosing Funds for Operations (FFO) and Adjusted Funds from Operations (AFFO) was launched in June 2013.

These ground-breaking guidelines set a voluntary framework for determining FFO and AFFO as the standard performance measures in the Australian marketplace, boosting transparency by enabling the comparability of property fund manager performance reports. The guidelines complement the audited financial accounts of Australian listed real estate organisations and give industry, investors and analysts a common language to talk about performance. The adoption of FFO and AFFO as standard voluntary performance metrics will also facilitate more meaningful comparisons with international property groups and increase the confidence of investors, analysts and government in Australia's real estate sector and attract global capital to Australian property.

More generally, DEXUS encourages better transparency and disclosure of responsible investment practices by adopting a walk-the-talk approach. DEXUS responds annually to several investor surveys and standards, publishes research papers, and formally discloses its own performance each year in accordance with the GRI framework.

### **Public Speaking**

During FY13 members of the DEXUS research team spoke publicly at a number of industry events and conferences. These speaking engagements focused primarily on investment trends, market trends, and the various risk management issues, including ESG issues, associated with responsible investment and property stewardship.

Various members of DEXUS also had the opportunity to present to broader stakeholder groups on various aspects of responsible investment and property stewardship including facility management events, investor gatherings and conferences. At these events, DEXUS staff participated in panel discussions and fielded questions incorporating financial, economic and sustainability issues.

FY13 Examples include:

- Invitations to present at investor roundtable meetings hosted by organisations including Merrill Lynch and Commonwealth Bank of Australia. This includes a broad cross-section of investors, not just those directly associated with DEXUS.
- Presentations to property services groups including Knight Frank
- Invitation to address attendees at a 'future leaders conference' hosted by Jones Lang LaSalle.

### **Research papers**

Sound investment decisions require an in-depth understanding of real estate markets. To that end, DEXUS maintains an in-house Research team that is an integral part of the investment decision making process. The research team tracks economic conditions and forecasts real estate market performance in all major commercial, retail and industrial property markets nationwide.

DEXUS publishes regular reports concerning market trends and risks/opportunities that may affect investment decisions. It is uncommon for property management companies to disclose their research, and DEXUS sees its willingness to keep stakeholders informed of market trends as a key point of differentiation in its approach to responsible investment.

Further information regarding DEXUS's research team and copies of recent reports can be found at: http://www.dexus.com/investor-centre/dxs/dxs\_research.aspx.



**DEXUS** Property Group

**Reported Information** 

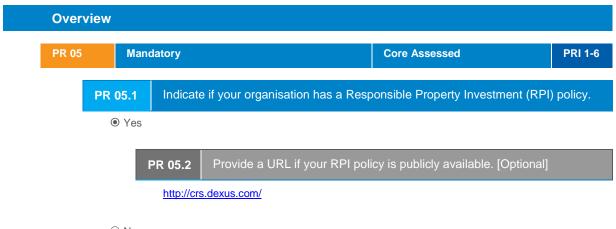
**Public version** 

**Direct - Property** 

## **PRI disclaimer**

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 $\bigcirc$  No



### PR 05.3 Additional information. [Optional]

### **Corporate Governance and Responsible Investment**

The DEXUS Board of Directors is ultimately responsible for risk management and is responsible for setting the tone, culture and objectives of risk and compliance management at DEXUS. This includes its approach to responsible investment which is encapsulated via the following corporate governance framework, which is implemented by the DEXUS Executive or Group Management Committee (GMC).

### Policies:

The Board and GMC have developed several policies, which together form the set of requirements under which DEXUS and its employees conduct business and maintain governance. Those that relate specifically to responsible investment include:

- Director's and employee codes of conduct
- Diversity principles and diversity target
- Biodiversity policy
- Environmental statement
- Continuous disclosure
- Good faith reporting
- Risk management

### Committees:

**Investment Committee:** DEXUS has established an Investment Committee which is tasked with reviewing all investment, divestment and development proposals concerning DEXUS and each of its managed funds and clients.

The Investment Committee recognises its fiduciary duty to put aside personal interest in favour of client interests. This committee uses a formal process and templates to collect and evaluate a wide range of risks, opportunities and their impacts relating to investment decisions for consideration prior to approving or endorsing each investment decision.

ESG issues and their impacts are evaluated alongside other key investment metrics thereby ensuring that CR&S issues are incorporated into investment decisions. This includes reviewing long-term asset plans and conducing appropriate environmental due diligence or acquisitions and disposals so that ESG risks can be identified and effectively managed.

The Investment Committee reports directly to the GMC.

**Board Audit, Risk and Sustainability Committee:** DEXUS has established a Board Audit, Risk and Sustainability Committee that is responsible overseeing group risk management including implementation and management of sustainability practices and initiatives throughout DEXUS, as well as overseeing ongoing disclosure of sustainability information.

The Board Audit, Risk and Sustainability Committee reports directly to the DEXUS Board.

**Compliance Risk, Ethics and Sustainability Committee:** DEXUS management formally report to the Board Audit, Risk and Sustainability Committee through the Compliance, Risk, Ethics and Sustainability Committee.

This committee provides a direct link between business operations and corporate governance and provides the Board Audit, Risk and Sustainability Committee and the Board with assurance that major business risks have been identified and assessed, and effective plans are in place to address and manage the risks in accordance with the Risk Management and CR&S Frameworks.

DEXUS has based the frameworks described below on the United Nations Global Compact and the UN



Guiding Principles on Business and Human Rights. In addition, DEXUS added input from the Property Council of Australia's Principles for Fair Contracting ( http://www.propertyoz.com.au/tas/library/06%20PCA%20Principles%20For%20Fair%20Contracting.pdf).

### **Risk Management Framework**

Responsible investment involves a structured process for mitigating risks associated with ESG issues.

DEXUS has developed a comprehensive Risk Management Framework with the aim of ensuring that risks are identified and managed in a consistent, systematic, credible and timely way. Its purpose being to minimise the impact of unexpected and undesirable events and to provide the ability to consider opportunities as they arise.

DEXUS recognises that risks come from numerous sources, driven by both internal and external factors. The four main sources of risk faced by DEXUS include:

- Strategic risks
- Operational risks
- Compliance risks
- Financial risks

The Risk Management Framework identifies key DEXUS stakeholders and their role in risk management, the required process for identifying, analysing and evaluating risks, and finally risk treatment and monitoring.

This framework is built into DEXUS's daily operations in the form of accountabilities, standard operating procedures, tools and templates, management oversight, collaboration and knowledge sharing, and audit and assurance.

### **CR**&S Management Framework

DEXUS has developed a CR&S framework (http://crs.dexus.com/) that incorporates the UNPRI 'six principles' relating to responsible investment and active property management. This framework incorporates six key stakeholder groups, and forms the basis from which sustainability commitments and targets are formed, and how achievement is measured.

Embedded in DEXUS's CR&S framework is a commitment to maintaining the highest standards of governance and business ethics, delivered through a service excellence approach to tenants and capital partners, the development of its people, supplier partnerships and engagement within communities.

The CR&S Framework is structured around the following CR&S principles:

- Taking a holistic view of every aspect of DEXUS's operations and incorporating CR&S initiatives throughout DEXUS
- Aligning CR&S initiatives with stakeholder expectations, corporate objectives and values
- Providing transparent reporting of CR&S activities and progress
- Demonstrating leadership in CR&S by maintaining the highest standards of corporate governance, ethics, environmental and social responsibility.

### Investors

DEXUS is focused on creating investor value by delivering operational excellence through active property, asset and development management resulting in low risk sustainable returns. DEXUS's approach to economic sustainability is based on two principles:

### 1. Sustained financial performance

DEXUS is committed to delivering consistently strong financial performance for its investors which, in turn, enables it to invest in initiatives that deliver improved sustainability performance.

DEXUS is a long-term owner, manager and developer of property and conducts regular asset management strategy reviews to assess each property's long-term value.

One consideration in the assessment of the financial sustainability of each property is that they continue to deliver against revenue targets, minimise outgoings and grow in capital value, thereby ensuring long-term retention.

### 2. Sustainability adds value

Operating sustainably adds to the overall business by:

- Enhancing income through rental premiums being paid for sustainable building
- Reducing operations and maintenance costs
- Improving tenant comfort and amenity
- Enhancing DEXUS's business reputation
- Boosting staff morale and productivity

This long-term contribution to the bottom-line is achieved through appropriate and ongoing investment in sustainability and by taking a systematic approach to responsible investment.

Accordingly, DEXUS has established the following business objectives:

- To achieve high performance environmental standards in its existing property portfolio
- To develop properties that are sustainable and minimise resource consumption
- To increase stakeholder awareness of the benefits of investing in sustainability and improved building performance

These objectives guide the development of DEXUS's sustainability practices and initiatives.

### Tenants

As one of DEXUS's key stakeholders, tenants/customers' needs are at the forefront of DEXUS's actions. DEXUS engages with tenants in multiple ways to gain a deep understanding of their requirements and plans in order to anticipate and meet tenants' requirements and deliver service excellence whilst incorporating sustainability ideals.

DEXUS's responsible investment practices include both design and operations. DEXUS considers how each investment will:

- Enhance the liveability and suitability of the building and tenant workplaces
- Mitigate future maintenance and operational costs
- Enhance retention options
- · Impact the delivery of or adherence to lease obligations under any green leasing arrangements
- Improve the carbon management performance of tenants and encourage innovation

### Suppliers

DEXUS seeks to engage with like-minded suppliers concerning sustainability issues and practices. DEXUS's suppliers vary in size and scale, and their capacity to integrate sustainable practices into their operations also varies. As a result DEXUS takes an individual and long term view to managing and maintaining supplier relationships.

DEXUS communicates its expectations to all suppliers and requires each one to operate in line with a Supplier Code of Conduct as well as understand DEXUS's procurement requirements and commitments outlined in its Sustainable Procurement Policy.

With each supplier engagement DEXUS seeks to ensure that investment considerations:

- Address impact on supply chains and adhere to DEXUS's Supplier Code of Conduct including materials, contractors, consultants and other professional services.
- Are in line with recognised and accepted labour and employment practices where that investment
  results in employment or engagement of suppliers, contractors and professional service providers

### Employees

One of DEXUS's most significant investments is within its employees. DEXUS strives to recruit and retain staff who with the right combination of expertise, experience, ethics and professionalism. DEXUS is believes that decision making is enhanced by diversity and seeks to maintain a socially and culturally diverse workplace that is tolerant, flexible and adaptive to the needs of the environment.

DEXUS also strives to:

- Achieve gender equality and equal opportunities
- Eliminate discrimination, harassment and bullying
- Provide a positive work culture that promotes excellence, integrity, empowerment, innovation and collaboration.

### Community

DEXUS accepts that is has a social responsibility to invest in community issues and to incorporate community considerations into its asset investment plans For FY3 DEXUS developed targets relating to staff donation of time for volunteering and support of community projects. DEXUS also takes great strides to incorporate community issues in regards to investment decisions, including:

- Any community / social / media risks
- Community / employment mobility in the short and long term
- Any opportunities or threats to public infrastructure
- The impact on the disabled and opportunities to enhance social inclusion

And have regard to appropriate stakeholder consultation and provision of service excellence in dealings with the wider business, social and residential community.

### Environment

DEXUS's environmental strategy aim to minimise the overall impact of its operations, both in the development of new properties and in the management of existing properties.

DEXUS's active management approach involves continual monitoring of environmental performance with the aims of identifying ways to save energy and water, reduce greenhouse gas emissions, and reduce the amount of waste transported to landfill.

DEXUS sets challenging targets for environmental performance down to a property level, and challenges its Property Managers to continually improve results. DEXUS is constantly evaluating new technologies and operational practices in order to realise further performance gains, and takes a long

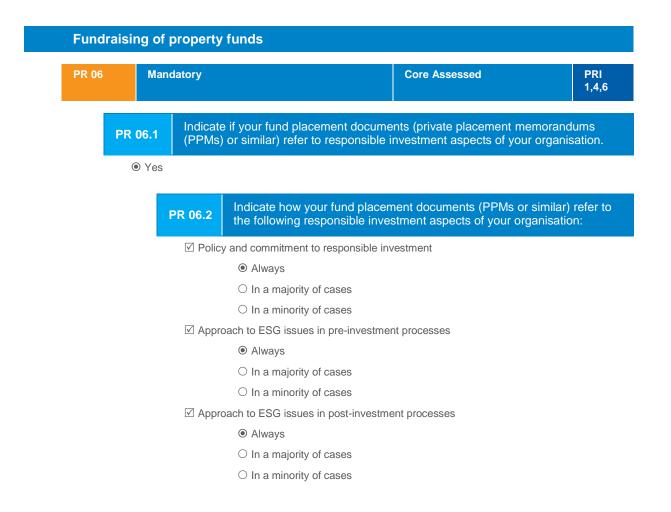


term view in regards to investing significant capital funds to improve poor performing buildings.

Key environmental objectives include:

- Maximise NABERS (energy and water) performance of the asset
- Exceed benchmarks including GHG emissions, waste, indoor environmental quality, transport and social performance
- Identify opportunities to enhance both environmental and social performance
- Set environmental performance targets for all investments
- Comply with applicable legislation
- Assess biodiversity risks and opportunities to create a net positive benefit
- Assess the impacts of climate change and extreme weather events and address appropriate
  mitigation and adaptation actions
- Prepare strategic improvement plans for each property that quantifies the ratings enhancement and energy saved, and the required investment.

Key environmental metrics are evaluated for new and existing properties in reference to DEXUS environmental targets and objectives. In some cases this may present an opportunity to re-invigorate a poorly performing building, whilst in other cases an investment's failure to meet DEXUS's environmental principles may prevent an otherwise worthwhile transaction from proceeding.



# PR 06.3Describe how your organisation refers to responsible investment for<br/>property funds in fund placement documents (PPMs or similar). [Optional]

DEXUS specialises in owning, managing and developing world class office, industrial and retail properties with total funds under management (FUM) of \$13.4 billion primarily within Australia as at 30 June 2013. All DEXUS properties either form part of it \$7.3 billion direct property portfolio, one of the largest listed Australian Real Estate Investment Trusts (REITs) (ASX: DXS), or its \$6.1 billion third party investment management business including DEXUS Wholesale Property Fund (DWPF) which invests in office, industrial and retail properties on behalf of third party investors.

### **Capital Raising**

- **DXS Direct Property Portfolio:** DEXUS has not sought to raise capital through direct fund raising within the last four years and this is a very rare occurrence.
- DEXUS Whole Property Fund (DWPF): Periodically DEXUS has conducted fundraising to add capital to its third party wholesale funds management business unit on a selective basis.

As such the content of this response relates to capital raising conducted by DWPF.

### **DWPF Information Memorandum**

DWPF provides all prospective investors with an 36-page Information Memorandum in which DWPF describes in detail its responsible investment approach in regards to:

- Understanding investment risk (3 pages)
- Sustainability (1 page)
- Governance and management (9 pages)

Within this content DWPF:

- Outlines the elements of its responsible investment framework
- Provides investors with an insight into the key investment decision makers
- Provides examples off its track record in regards to pre-investment decision making and post-investment management practices

On occasion, DWPF fields requests for additional clarification from investors to which it responds directly.

### **INREV Due Diligence Questionnaire for Fund Managers**

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. It is Europe's leading platform for the sharing of knowledge on the non-listed real estate industry.

INREV's Due Diligence Questionnaire (DDQ) was created for fund managers to streamline fund information ahead of a fund's launch. Investors can use this information to better understand the fund's structure, strategy and real estate business. The DDQ also provides information on a specific fund's strategy, processes, management, terms and projected performance.

DWPF has previously responded to INREV's DDQ and this survey response is available



to all current and potential investors upon request.

Please refer to the INREV website for further information (https://www.inrev.org/).

### **DWPF Reporting**

DWPF prepares and distributes quarterly reports to wholesale investors. These reports include:

- Site performance metrics, financial performance summary for the last quarter, comparison against benchmarks and commentary.
- Summary of key events that have occurred and their impacts on the portfolio (i.e. acquisitions, divestments, developments, etc.).

DWPF prepares and distributes annual reports to wholesale investors. These reports include the above information, plus:

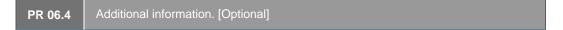
- Sustainability performance summary including current NABERS ratings.
- Intensity figures for energy, water and greenhouse gas emissions, and
- Commentary regarding current efficiency improvement projects and results from completed projects.

### Secure Investor Website

DWPF provides existing and potential investors with access to a secure investor internet portal which contains additional information to support investment decision making. This includes:

- Quarterly performance reports which include reporting of sustainability metrics and commentary
- Documents describing governance processes
- Links to DEXUS's CR&S framework under which DWPF is managed.

 $\bigcirc$  No



DEXUS Wholesale Property Fund (DWPF) conducts fundraising when approached by potential investors, or by approaching the capital market directly on an infrequent basis.

During FY13, DWPF proved attractive to investors, with over \$820 million of equity raised, including \$348 million from a pro- rata offer and \$290 million from a new major investor.

In February 2014, DWPF secured an additional \$350 million via an off-market capital raising, with the offer significantly oversubscribed.

Please refer to the DWPF media release dated 17 February 2014 for further details ( http://www.dexus.com/upload/asxannouncements/2014%2002%2017%20DWPF%20new%20equity%20offer %20over-subscribed.pdf).







### **Investment Committee**

DEXUS has established an Investment Committee which is tasked with reviewing all investment and divestment proposals concerning DEXUS and each of its managed funds and clients.

The Investment Committee recognises its fiduciary duty to put aside personal interest in favour of client interests. This committee uses a formal process and templates to collect and evaluate a wide range of risks, opportunities and their impacts relating to investment decisions for consideration prior to approving or endorsing each investment decision.

ESG issues and their impacts are evaluated alongside other key investment metrics thereby ensuring that CR&S issues are incorporated into investment decisions. This includes reviewing long-term asset plans and conducing appropriate environmental due diligence or acquisitions and disposals so that ESG risks can be identified and effectively managed.

A typical process for selecting investments is described below, noting how ESG issues are considered within each step where applicable.

- 8. **Opportunities arise** DEXUS actively seeks opportunities through on-market campaigns or is approached directly regarding a specific opportunity
- 9. Initial investigation and presentation to Investment Committee Potential opportunities undergo high level investigation regarding key financial and ESG metrics (such as current NABERS rating), and the purchase strategy (e.g. buy and hold versus trading). This may summarise current building performance, its potential for building efficiency upgrades. Immediate risks (e.g. known flood risk, previous history of earthquakes) are considered at this time, and then comprehensively during due diligence. The outcomes are summarised for review by the Investment Committee.
- 10. **Investments Committee decides to proceed** the Investment Committee evaluates the opportunity summary and either decides to proceed or makes a recommendation to proceed based on the size of the investment.
- 11. Conduct due diligence DEXUS has a rigorous due diligence process. Opportunities that pass the initial recommendation undergo formal due diligence that involves indepth investigations into a wide range of issues and factors that will influence the final decision and/or parameters of the transaction. During this process, the Capital Transaction team brings in experts from across the business in the areas of tax, finance, sustainability, property services, legal, and treasury, and conducts testing and review of documentation. External resources may be engaged to assist with providing information or perspective where required. This may involve details on the potential acquisition's environmental performance including NABERS Ratings, Green Star ratings, energy and water consumption any climate change impact research or assessments that have been conducted, building upgrade and improvement plans, past energy and water audits undertaken as well as costing required upgrades to the property.
- Prepare a full Board Investment Committee paper the outcomes of the due diligence process are summarised in a submission paper for sign off by the committee or the Board itself.
- The Investment Committee finalises its recommendation to the DEXUS Board or the third party client from which a decision is made on whether to proceed.

This process is documented in detail and supported by tools and checklists (such as the due diligence checklist). The use of checklists serve several purposes including:



- Ensuring a consistent approach and that all known items are considered; don't forget items
- Roadmap an effective handover document
- Compliance checklist to confirm that staff have followed the entire process

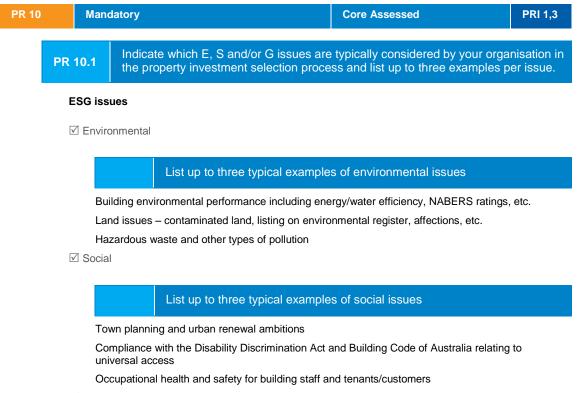
It must be noted that the process/checklist can't always cover every eventuality/issue as some re very site specific, including ESG issues. These are typically identified and resolved via a combination of skills and experience from the due diligence team, and the thoroughness of the due diligence process itself.

These processes have emerged over recent years and continue to evolve. The Capital Transaction teams works with the Risk and Governance team to map the process. Governance is maintained and tested via internal and external audit.

 $\bigcirc$  No

### PR 08.3 Additional information. [Optional]

DEXUS believes that that the consideration of ESG issues within its due diligence process is a fundamental aspect of investing responsibly, and that failure to appropriately understand and evaluate ESG issues fails investors and exposes DEXUS to financial, reputational, and operational risks.



Governance



List up to three typical examples of governance issues

Existing contracts and service agreements, compliance with authorisations and licenses, and legal disputes

Tenancy lease agreements, tenant solvency, rent arrangements, rental arrears, etc.

Existing and required Insurance coverage and risk assessment



### PR 10.2 Additional information. [Optional]

For each property investment decision, DEXUS applies its due diligence checklist, which includes an exhaustive list of issues, designed to ensure that all issues are considered and analysed where relevant. The checklist is applied to potential investments in all geographical areas, across all property types, and applies to relevant state and federal legislation.

The checklist is divided into sections. Most sections are actioned for all due diligence exercises, whilst others pertain to specific property types. For example the checklist contains a section on assessing Retail tenants within shopping centres.

Further details relating to the examples provided are listed below.

### Building environmental performance including energy/water efficiency, NABERS ratings, etc.

DEXUS collects data pertaining to the current performance of the potential acquisition. This is benchmarked against similar properties within the DEXUS portfolio as well as externally via the NABERS rating system where applicable.

This information provides an insight into future utility operational expenditure and informs the asset plan where DEXUS seeks to undertake building works to improve energy/water efficiency.

### Land issues - contaminated land, listing on environmental register, affections, etc.

DEXUS is adverse to acquiring property with the presence of contaminated land. Should a potential investment be found to be impacted by contaminated land, determination as to whether DEXUS will acquire the site will take into consideration the extent of contamination and the cost of remediation. DEXUS also seeks visibility regarding limitations that may exist over a property due to inclusion on an environmental register, or affections including proposed roads/rail, sewers, easements, etc. Compliance requirements are managed at a state level and may vary slightly across geographic markets within Australia and New Zealand.

### Hazardous materials and other types of pollution

DEXUS physically inspects potential investments to determine the existence of hazardous materials such as Asbestos and evaluate the health and safety impacts for staff and tenants/customers. Hazardous materials may require removal or treatment at potentially significant cost.

### Town planning and urban renewal ambitions

DEXUS investigates the current zoning classification and planning restrictions for a potential investment. DEXUS also seeks insight into future plans for the precinct. For retail sites DEXUS conducts demographic studies to understand social demographics, competition within the immediate vicinity and benchmarking.

# Compliance with the Disability Discrimination Act and Building Code of Australia relating to universal access

DEXUS reviews existing building accesses to determine any gaps in compliance with relevant



legislation that may require modifications to existing infrastructure of the installation of new infrastructure to accommodate universal access. This may include assessments of entrances and exits, ramps, stairs, lifts and escalators, as well as internal services.

### Work health and safety for building staff and tenants/customers

DEXUS considers WH&S issues across the entire due diligence checklist. Some items directly affect health and safety and are specifically investigated. These include identifying cooling towers, hazardous materials, contaminated land, etc. Other issues such as noise pollution, potential hazards (e.g. electrical, physical, chemical) are evaluated during physical inspections, within formal assessment engagements (e.g. commissioned studies and reports), and via discussions with stakeholders.

# Existing contracts and service agreements, compliance with authorisations and licenses, and legal disputes

DEXUS undertakes extensive due diligence to understand all legal issues and obligations that apply to a potential investment. External law firms assist internal staff to review contracts with building service providers and to determine all liability and licenses to which DEXUS must abide by.

### Tenancy lease agreements, tenant solvency, rent arrangements, rental arrears, etc.

DEXUS reviews all tenant lease agreements to understand common contract clauses as well as specific amendments, caveats or variations. DEXUS reviews the tenancy schedule and collects information regarding lease expiry, the solvency of tenants, their rental payment history, any outstanding arrears, etc. This enables DEXUS to identify risks and develop plans regarding maintaining rental income, reducing outstanding debt, and resigning tenants onto new leases incorporating DEXUS terms and conditions.

### Existing and required Insurance coverage and risk assessment

Investigations are undertaken to identify any recent natural events that affect the proposed investment including recent floods and location within flood-prone areas. DEXUS will consider the risks of flood and other extreme weather events as part of its overall decision to invest and the subsequent cost of insurance cover required due to the risk profile.

# Selection, appointment and monitoring third-party property managers PR 13 Mandatory Core Assessed PRI 4 PR 13.1 Indicate if your organisation includes ESG issues in your selection, appointment and/or monitoring of third-party property managers. Image: Core Assessed or Core Asses



# **PR 13.2** Indicate how your organisation includes ESG issues in your selection, appointment and/or monitoring of third party property managers.

### $\ensuremath{\boxtimes}$ Selection process of property managers incorporated ESG issues

- For all third party property managers
- For a majority of property managers
- For a minority of property managers
- I Contractual requirements when appointing property managers includes ESG issues
  - For all third party property managers
  - $\bigcirc$  For a majority of property managers
  - $\bigcirc$  For a minority of property managers
- $\ensuremath{\boxtimes}$  Monitoring of property managers covers ESG responsibilities and implementation
  - For all third party property managers
  - $\bigcirc$  For a majority of property managers
  - $\bigcirc$  For a minority of property managers



**PR 13.3** Provide a brief description of your organisation's selection, appointment and monitoring of third party property managers. [Optional]

DEXUS seeks to partner with like-minded suppliers including third party facility managers to deliver exceptional service to tenants on its behalf.

Like all major supply engagements, DEXUS undertakes a rigorous, documented tender process which broadly involves:

### Internal preparation

DEXUS staff develop the key stakeholders to be involved and conduct a review to determine if any conflicts of interest exist, which are then managed as per the Conflicts of Interest Policy.

The scope of work is prepared covering the nature of the services to be conducted and the properties involved.

A set of key performance indicators is determined from which DEXUS seeks to monitor performance. In the case of third party facility managers, these include extensive KPIs relating to monitoring and maintaining environmental performance levels, tenant engagement and satisfaction, as well as maintaining effective governance.

For example, in 2009 DEXUS commenced a NABERS Energy and Water improvement program across its DXS listed office portfolio. This program involved significant investment in new plant and equipment with the aim of improving building performance to meet portfolio NABERS star rating targets of 4.5 stars for energy and 3.5 stars for water. Objectives for third party facility managers are aligned with DEXUS's aims of bestpractice property management and striving towards commitments such as these.

### Going to market

DEXUS typically starts with a selection of companies that are believed to be best placed to deliver on DEXUS property management services and objectives.

DEXUS provides tenders with a 'request for tender' (RFT), which is a formal structured invitation to supply the listed services. This document pack includes the scope of work, terms and conditions under which DEXUS intends to contract, and requests for insurance, etc. DEXUS's criterion includes its commitments towards sustainability and the performance expectations and proposed monitoring and reporting requirements.

DEXUS is committed to being a leader in CR&S and seeks to ensure that contributions to its supply chain have positive environment and social impacts.

In order to achieve this, requests for tender include requirements for tenderers to provide evidence of their commitment to corporate responsibility and sustainability.

Evidence may include information relating to the tenderers':

- Environment management systems;
- Use of sustainable products and recycled materials in their proposed works and services;
- Ranking in CR&S benchmarking and global indices; and
- Support of and engagement in ethically responsible practices.

Tenderers are provided with the DEXUS Sustainable Procurement Policy and Supplier Code of Conduct. These documents are available at



http://crs.dexus.com/stakeholders/?m=13

Tenders submit their response to the RFT in which they outline their company values, proposed methodology, approach, resourcing, alignment with DEXUS requirements, fee structures, etc.

### **Tender evaluation**

DEXUS develops a selection and evaluation criteria to be used for evaluating each tenderer's response. Responses are scored against this common set of criteria. Typical criteria includes capacity to deliver, price, conformity with scope, technical capability, alignment with DEXUS risk management and CR&S frameworks, financial stability, conformity with contractual terms.

DEXUS will conduct a thorough review and due diligence of tender responses which will include:

- Review of submissions
- Hold interviews and request presentations
- Conduct reference checks
- Conduct site reviews if required
- Conduct credit checks and review the tenderer's financial position
- Seek certificates of currency for insurance

DEXUS works with the successful bidder to finalise terms and conditions and execute the services contract. This includes agreement on performance monitoring mechanisms and key performance indicators.

Extracts from contract KPIs and tender selection criteria with building/facility management include:

- Share a commitment to environmental sustainability to reach best practice standards in sustainable building operations, focusing on reducing energy and water use, and greenhouse gas emissions
- Maintain existing or improved NABERS portfolio average ratings
- Work in partnership with DEXUS and its members of the building management team to monitor, report and improve performance
- Report monthly/quarterly on sustainability risks, opportunities and actions,
- Comply with DEXUS's Sustainable Procurement Policy and Supplier Code of Conduct, and provide CR&S information as required; and
- Contribute to the building Strategic Improvement Plan (SIP) including NABERS Energy and Water rating targets.

### Monitoring

DEXUS formally agrees with facility managing agents to implement ESG and sustainability measure(s) on its behalf through contract specific criteria, active contract management, KPIs, NABERS ratings, Strategic Improvement Plans and Sustainability Action Plans specific to each property.

Performance is monitored via a comprehensive list of compliance and performance indicators. These relate to a range of issues, including governance, maintaining property performance, levels of tenant engagement, meeting audit requirements, etc.

Contract review meetings are held every 6 months where the facility manager presents its report card of key performance indicator. DEXUS assesses and corrects and the parties discuss current issues or areas where performance is below expectations.



Fees are adjusted according to scorecard.

DEXUS conducts internal audits on a needs basis to satisfy itself that the facility manager is faithfully carrying out its obligations and reporting accurately.

PR 13.4

Describe how your third party property managers contribute to the management of ESG issues for your property investments. [Optional]

DEXUS formally agrees with facility managing agents to implement ESG and sustainability measure(s) on its behalf through contract specific criteria, active contract management, KPIs, NABERS ratings, Strategic Improvement Plans and Sustainability Action Plans specific to each property.

DEXUS has portfolio-wide overview of the performance of each asset through its resource consumption database monitoring and reporting, real-time metering systems and oversight of its recently completed 4.5 star NABERS Energy upgrade program.

DEXUS's Property Services and Sustainability Team works directly with third party facility managers and building operations managers on each building's Strategic Improvement Plan, NABERS target ratings and Sustainability Action Plan.

DEXUS's Operations and Sustainability Manager ensures its ESG strategy is delivered through the improved performance of each building. This approach is collaborative to ensure DEXUS communicates its expectations in contracts with building management agents and teams. Teams meet weekly/monthly depending on individual building needs and upgrade projects. As DEXUS reports under the Energy Efficiency Opportunities Act (EEO), all upgrade works and opportunities are reported centrally to the DEXUS CR&S team monthly. In addition to its National Engineering Manager, DEXUS also has a designated contract manager to ensure that KPIs are met.

### $\bigcirc$ No

### PR 13.5 Additional information. [Optional]

DEXUS strives to be a market leader in corporate responsibility and sustainability in the property sector.

Building performance is directly linked to the operational management of the building; therefore DEXUS ensures that all contracts pertaining to building operations contain appropriate sustainable criteria depending on the service procured. The process consists of engaging external facility managers through a supplier contract which includes specific sustainability and ESG criteria. All DEXUS contracts require all of its suppliers to comply with DEXUS's Sustainable Procurement Policy and its Code of Conduct. Facility management contracts contain specific KPIs that relate to sustainability benchmarking and reporting as well as data collection.

### Post-investment (monitoring and active ownership)



| Overview |          |         |   |  |          |
|----------|----------|---------|---|--|----------|
| PR 14    | Mandator | У       |   | Gateway  | PRI 2    |
|          | PR 14.1  |         | e if your organisation, and/o<br>investment activities relating | r property managers, considers E<br>g to your property assets.                   | SG issue |
|          | Yes      |         |   |  |          |
|          |          | PR 14.2 |   | anisation, and/or property manag<br>the following post-investment act<br>assets. |          |
|          |          | ⊠ We d  | consider ESG issues in property                                 | / monitoring and management  |          |
|          |          | ⊠ We d  | consider ESG issues in property                                 | v developments and refurbishments  |          |
|          |          | 🗹 We d  | consider ESG issues in property                                 | occupier engagements   |          |
|          |          | 🗹 We d  | consider ESG issues in commu                                    | nity engagements related to our prop   | erties   |
|          |          | □Wed    | consider ESG issues in other po                                 | ost-investment activities, specify   |          |



PR 14.3Describe how your organisation, and/or property managers,<br/>considers ESG issues in post-investment activities related to your<br/>property assets. [Optional]

### Property monitoring and management

### Monitoring

DEXUS has an extensive data collection, monitoring and reporting system that provides visibility on performance trends from corporate level down to individual buildings, meters and sub-meters. DEXUS has portfolio-wide overview of the performance of each asset through a resource consumption database monitoring and reporting, and real-time metering systems. DEXUS engages an independent outsourced bill validation specialist to collect and validate utility invoices and populate data into the resource consumption database.

Building managers are provided with monthly trend reports, and have access to interval and sub-meter systems for detailed consumption data. DEXUS tracks logins to these systems to ensure that site staff are accessing information on a regular basis.

NABERS energy and water ratings are tracked and a rolling average portfolio rating is maintained for comparison against DEXUS's 4.5 star NABERS Energy target.

### Reporting

DEXUS reports internally on portfolio performance in terms of energy, water, waste, and greenhouse gas emissions. DEXUS also reports on its average portfolio NABERS ratings for evaluation against its NABERS Energy and Water improvement program. This program commenced in 2009 with the target of achieving targets of 4.5 star NABERS Energy and 3.5 stars for NABERS Water performance. DEXUS achieved its targets in December 2012 and continues to monitor and report that the target is maintained.

Reports are prepared and presented to senior management within the Board Risk and Sustainability Committee. A comprehensive reporting 'Performance Pack' is prepared each year as part of DEXUS's annual reporting suite. This contains a detailed analysis of the property portfolio across a range of metrics, linked to the CR&S framework and corresponding FY13 commitments. The FY13 Performance Pack is located at: http://crs.dexus.com/performance-pack/14/overview.

DEXUS communicates ESG targets and performance through a range of mediums to tenants, which includes building specific sustainability presentations, communications through a tenant portal, building waste and recycling road shows, annual Earth Hour campaign, Green Building Committees and tenant events.

### Management and feedback

DEXUS's Operations and Sustainability team work directly with third party property managers to continually monitor and review building performance. Joint weekly meetings are held which cover a comprehensive agenda focused on all operational aspects relating to ESG. Performance trends are review, anomalies identified, and DEXUS requirements are communicated to the third party manager for dissemination to building managers to act upon.

### **Projects and initiatives**

DEXUS conducts periodic engineering assessments of its properties, and develops



and maintains a Strategic Improvement Plan (SIP) for each property. The DEXUS sustainability team works directly with third party property managers to implement projects and measure improvements in performance.

DEXUS is obligated under the federal government's Energy Efficiency Opportunities (EEO) program and reports publicly each year on progress achieved via SIP implementation. The resource consumption database is used as the source for verifying changes in performance.

DEXUS seeks project implementation funding where available and has successfully applied for grant funding under the federal government's Green Building Fund.

DEXUS also participates in the NSW Energy Savings Scheme, and generates Energy Savings Certificates (ESCs) based on demonstration of electricity reductions due to energy efficiency projects. These certificates can be sold at a future date to realise extra funds for use in further building works.

### Innovation and technology

DEXUS is constantly reviewing and evaluating new technologies, equipment vendors, and ideas to improve operations to identify practical and cost effective ways to maintain continuous improvement. Innovative approaches can be an effective market differentiator, and DEXUS will enthusiastically embrace viable and cost effective technologies. This typically involves product trials and if successful then leads to broad roll outs to applicable properties.

### **Developments and refurbishments**

DEXUS is committed to developments that drive emission reduction e.g. designing and building market leading Green Star properties both in the office and industrial sectors. In office, 1 Bligh Street and 123 Albert Street achieved a 6-star Green Star Design rating in 2010. In industrial, DEXUS continues to ensure all new developments and refurbishments incorporate ESD initiatives such as:

- Inclusion of native landscaping which require minimal watering
- Water tanks to capture roof rainwater for landscape irrigation and for plumbing purposes
- Investigating the validity of accessing warehouse roof spaces for solar power generation.
- Installing best-practice lighting systems in vacant tenancies
- Taking a long term approach to core assets including implementing major HVAC upgrade projects with long paybacks at core properties.

DEXUS continues to work with the Green Building Council of Australia's Green Star Industrial Rating Tool and is committed to incorporating many of the requirements of the tool in new developments.

DEXUS continues to present Green Star opportunities to all tenants it engages with on industrial new builds. Refurbishments, energy retrofits and tenant make goods consider energy efficiency and environmental impacts from products and services. DEXUS also has fit out guides in place for sustainable products that consider whole life costings.

As an example, the Symbion building within DEXUS's Quarry Industrial Estate at Greystanes incorporated sustainable design and construction features, including:

• The use of recycled timber for construction materials obtained from a



deconstructed road bridge that was being replaced at the time with a new steel and concrete structure,

Design of a rainwater harvesting system to irrigate the nearby golf course.

### Property occupier engagements

DEXUS's approach to tenant engagement is reflected within its ESG strategy within the CR&S framework.

DEXUS interacts with its tenants in a number of ways in its office, industrial and retail sectors, including:

- Tenant surveys
- Tenant and centre newsletters
- Regular tenant meetings
- Social events
- Waste education programs
- Green Building Committees with tenant representation in DEXUS's major office properties
- Tenant Service Request (TSR) system for office and industrial properties

Tenants are surveyed each year on a range of issues to help DEXUS understand how it is performing. This is a valuable engagement and feedback mechanism to better understand tenant priorities and key issues.

Tenants can provide direct feedback on issues relating to comfort via the DEXUS Response Centre (DRC).

DEXUS works closely with tenants and other stakeholders to improve the tenant's sustainability performance and awareness.

In FY13 this activity included:

- 14. Collaboration with City Switch, a national tenant energy efficiency program, both as a signatory and a landlord to drive tenant activity in sustainability and energy efficiency
- 15. Promotion of DEXUS's green building committees and other programs, including:
- involvement in the 2013 Earth Hour campaign
- NABERS Energy and NABERS Water ratings
- general building sustainability performance and updates

Through 'green leasing', DEXUS seeks joint commitment from its tenants to participate in building efficiency initiatives and collaborate where necessary to strive to achieve building performance targets.

Please refer to the Tenant section on the DEXUS website for further details http://crs.dexus.com/our-stakeholders/10/our-tenants.

### **Community engagements**

DEXUS monitors and publicly reports on community engagement and volunteering hours as well as in-kind donations from its shopping centres.

During FY13 DEXUS staff devoted almost 1,000 hours to volunteering. Volunteering activities are aligned with DEXUS's strategic objectives to support organisations



providing accommodation and improved living conditions to the homeless and those less fortunate.

DEXUS also donated over \$750,000 in financial and in-kind support to community groups and charities. DEXUS's support for the community extends to charitable organisations that provide accommodation solutions to a wide range of individuals who may be less fortunate. As a property company DEXUS believes the provision of suitable accommodation is a critical element in the sustainable development and social fabric of the community.

 $\bigcirc$  No

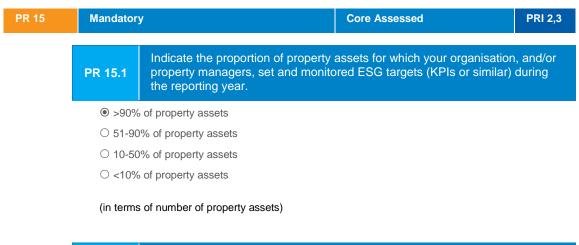


For further information, please refer to DEXUS's 2013 Annual Review and Performance Pack.

The 2013 Performance Pack is located at: http://crs.dexus.com/performance-pack/14/overview.

The 2013 Annual Review is available at: http://dexus.interactiveinvestorreports.com/2013annualreview/

### Property monitoring and management



 PR 15.2
 Indicate ESG issues for which your organisation, and/or property managers, typically sets and monitors targets (KPIs or similar) and provide examples per issue.

 ESG issues

 Image: Signal and Signal



Maintain the average 4.5 star NABERS Energy rating across the DXS office portfolio Deliver a 10% energy saving over the next three years across the property portfolio



Outperform the IPD Green Building Index through responsible capital investment in environmental initiatives

Social

List up to three example targets per issue

Maximise tenant participation in Earth Hour initiative

Increase DEXUS's volunteering commitment with at least 75% of employees contributing to one day of community service during the year

Increase response rates and improve tenant satisfaction

Governance

List up to three example targets per issue

Deliver FFO earnings of 7.75 cents per security, and deliver a payout ratio of 75% of FFO Maintain strong credit rating metrics

namalin strong orean rating method

Actively manage lease expiries and improve portfolio occupancy

□ We do not set and/or monitor against targets



### PR 15.3 Additional information. [Optional]

Each year DEXUS sets, reviews and updates corporate objectives within its responsible investment framework. Commitments are typically defined with respect to each of the six key stakeholder groups (i.e. Investors, Customers, Employees, Suppliers, Community and Environment) and may relate to:

- Setting and achieving operational performance targets such as financial targets or building efficiency benchmarks
- Initiatives to improve collaboration or joint commitment with stakeholders such as suppliers, customers, and industry peers
- Enhancements to processes, governance mechanisms or internal efficiency
- Implementing ESG projects at specific properties within the portfolio
- Broader ambitions to make a material impact on staff, the community and/or the environment.

Further information regarding DEXUS's FY13 commitments and progress can be found within the: DEXUS 2013 Annual Review, pages 18-21, which is available at http://dexus.interactiveinvestorreports.com/2013annualreview/.

Commitments are set at the close of each financial year following input from key DEXUS stakeholders.

DEXUS reports on select key commitments every six months, and reports comprehensively on all commitments within its Annual Review, in line with requirements to transparently monitor and report performance outlined within DEXUS's Environmental Statement.

DEXUS maintains an internal monitoring and reporting program to continually review progress against its ESG commitments. Environmental performance is under ongoing review through the following forums:

- Daily monitoring of building consumption trends by Building Managers
- Weekly sustainability team meetings involving stakeholders from DEXUS and its managing agent
- Monthly reporting of NABERS ratings activity and tracking of rolling portfolio targets
- Monthly review of energy and water billing data and investigation into adverse consumption trends
- Formal updates to the DEXUS Board (via Committees) every quarter.

DEXUS measures its success in the following ways:

- Completion of commitment milestones
- Achievement of targets
- Feedback from tenants and customers
- Awards and external recognition
- Inclusion to and rankings within sustainability and leadership indices

| Property developments and refurbishments |           |               |       |  |  |
|--|-----------|---------------|-------|--|--|
| PR 17                                    | Mandatory | Core Assessed | PRI 2 |  |  |



# **PR 17.1** Indicate the proportion of active property developments and refurbishments where ESG issues have been considered.

- >90% of active developments and refurbishments
- $\odot$  51-90% of active developments and refurbishments
- $\odot$  10-50% of active developments and refurbishments
- $\bigcirc$  <10% of active developments and refurbishments
- $\odot$  N/A, no developments and refurbishments of property assets are active

### (by number of active property developments and refurbishments)

| PR 17.2   | Indicate if the following ESG considerations are typically implemented and monitored in your property developments and refurbishments. |  |  |
|---|--|--|--|
| I Minimum environmental site selection requirements   |  |  |  |
| I Minimum environmental site development requirements |  |  |  |
| Sustainable construction materials                    |  |  |  |
| ☑ Minimum water efficiency requirements               |  |  |  |
|   |  |  |  |

- ☑ Minimum energy efficiency requirements
- $\ensuremath{\boxdot}$  Energy generation from on-site renewable sources
- ☑ Waste management plans at sites
- $\ensuremath{\boxdot}$  Health and safety management systems at sites
- Construction contractors comply with sustainability guidelines
- □ Other, specify



### PR 17.3 Additional information. [Optional]

DEXUS is committed to developments that drive emission reduction with a longstanding record in designing and building market leading Green Star properties both in the office and industrial sectors.

In office, 1 Bligh Street and 123 Albert Street achieved a 6-star Green Star Design rating in 2010 and 1 Bligh Street achieved 6 Star Green Star As built (v2) in June 2012. DEXUS seeks to use recycled, reused, low carbon and ethically sourced materials.

DEXUS also has a strong track record in regards to conducting retrofits to buildings to make them more energy efficient and sustainable.

For example, in 2009 DEXUS commenced a NABERS Energy and Water improvement program across its DXS listed office portfolio. This program involved significant investment in new plant and equipment with the aim of improving building performance to meet portfolio NABERS star rating targets of 4.5 stars for energy and 3.5 stars for water.

FY13 saw DEXUS complete its NABERS improvement program in which DEXUS committed \$31.1m of capital to conduct building retrofits in order to achieve and exceed the 4.5-star targeted outcome. Each site underwent an assessment in based on requirements outlined within the federal government's Energy Efficiency Opportunities (EEO) program. Feasible projects were identified and successfully implemented.

### New Development Design Briefs and Refurbishment Scopes of works "Design Briefs"

A design brief is prepared for all new developments and refurbishments in conjunction with a tenant where applicable.

Design briefs describe the scope and nature of the development works, and incorporate a range of requirements and minimum standards relating to ESG issues and performance. The content of each design brief is unique to the development or retrofit however an overarching document is created for each works project for the purposes of tendering and holding contractors to account against a fully documented list of requirements.

DEXUS seeks to incorporate best-practice into its design briefs. For new developments, buy in is sought from prospective tenants and the final brief is agreed before proceeding with construction. DEXUS seeks to incorporate ESG issues into all aspects of the design through the inclusion of sustainable building features (e.g. such as passive cooling, rainwater harvesting) as well as applying minimum standards to equipment and materials (e.g. insulation R-values, WELS ratings for water fixtures).

DEXUS decides on a case-by-case basis, in conjunction with tenant needs, to seek certification under Green Star. Even if not required, DEXUS will refer to its design principles and standards where feasible.

### Managers have a duty to drive performance

A Principal Contractor is selected via tender to implement the brief. The PC takes on legal obligations for HSE at site during construction. Their systems are critically reviewed during procurement/engagement as part of adhering to the DEXUS Supplier Code of Conduct.



Principle Contractors have a duty to drive performance as part of meeting their contractual obligations with DEXUS.

DEXUS employs an independent project manager/superintendent to administer the development contract on behalf of DEXUS. They run PCGs site inspections and ensure that builders/contractors adhere to agreed and statutory HSE requirements.

Prior to handover, DEXUS thoroughly reviews the works against the design brief to ensure all requirements are met.

### **Underlying Drivers**

A range of internal and external drivers exist that drive ongoing investment in building efficiency and managing ESG issues. These include:

- Improving rental returns the desire to reduce operating costs and reduce risk associated with utility prices. Reduced outgoings mean that DEXUS is able to increase profit margins. Evidence has shown that tenants are willing to pay premium rents to occupy the most efficient and sustainable buildings.
- It makes financial sense numerous studies have shown that investments in energy efficient technology are one of the least cost ways to reduce greenhouse gas emissions and project investments are paid back through reduced utility and maintenance costs in a reasonable timeframe. From this perspective, the financial drivers are straightforward. This is particularly evident for new designs, in which ESG opportunities can be incorporated at reduced marginal cost.
- Consumer demand and sentiment the leasing market is a competitive one in which tenants often have a choice of buildings to occupy. Increasingly tenants expect that their building perform efficiency; building efficiency is no longer a nice to have. For example government agencies set minimum standards for base building NABERS ratings as a minimum requirement when selecting potential space.
- Industry leadership The DEXUS vision is "To be globally recognised as Australia's leading real estate company". This involves taking a leadership position on issues such as responsible investment and applying suitable focus on ensuring that its assets are leaders in their respective markets.
- Benchmarking and peering The use of tools such as Green Star and NABERS quickly enables tenants, investors, and the wider community to assess the relative ESG performance of DEXUS properties against industry benchmarks. It is in DEXUS's interests to ensure that it is well positioned against its peers in order to attract and maintain tenants and investors.
- Future proofing DEXUS recognises the ESG will continue to grow in importance over time. As part of its long term risk management strategy, DEXUS seeks to tackle ESG issues and maximise building performance so that its property portfolio is best placed to deal with potential future issues including introduction of environmental minimum standards, taxes or financial penalties associated with resource use and greenhouse gas emissions, new legislation, etc. Although DEXUS cannot always predict how it will be affected in the future, by progressing as far as is economically possible now means that DEXUS can cushion itself from drastic, externally driven changes to its business.
- Attracting and retaining investors ESG performance is one of several criteria in which investors allocate funds. Investors that are keen to invest in sustainable companies will refer to stock exchange sustainability indices including DJSI and FTSE4Good to assist them. Each year DEXUS responds to investor surveys describing in detail its approaches to ESG issues, management and implementation strategies, and performance figures. Membership to these indices is based in part demonstrating ongoing operational efficiency gains and greenhouse gas reductions, which are most readily achieved from building upgrade works and best-practice developments.



### ESG standards for contractors

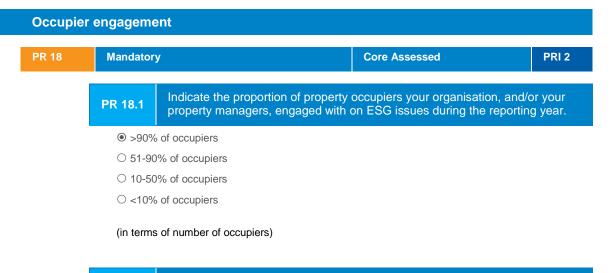
DEXUS seeks to engage with like-minded suppliers concerning sustainability issues and practices. DEXUS's suppliers vary in size and scale, and their capacity to integrate sustainable practices into their operations also varies. As a result DEXUS takes an individual and long term view to managing and maintaining supplier relationships.

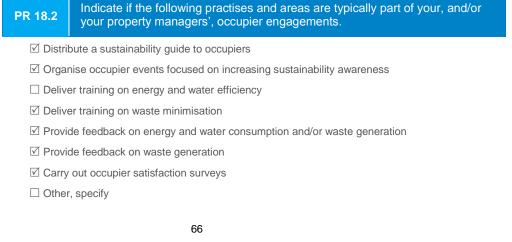
DEXUS communicates its expectations and general ESG requirements to all suppliers and requires each one to operate in line with a Supplier Code of Conduct as well as understand DEXUS's procurement requirements and commitments outlined in its Sustainable Procurement Policy.

With each supplier engagement DEXUS seeks to ensure that investment considerations:

- Address impact on supply chains and adhere to DEXUS's Supplier Code of Conduct including materials, contractors, consultants and other professional services.
- Are in line with recognised and accepted labour and employment practices where that investment results in employment or engagement of suppliers, contractors and professional service providers

Specific standards regarding ESG are agreed with contractors based on the prepared design brief. All work carried out must comply with the brief.







### Sustainability Guide - Tenant Welcome Pack

DEXUS presents new tenants with a 'Tenant Welcome Pack' which introduces them to the features and services of the property in which they have taken up space. This pack contains information about the sustainability features (e.g. water recycling, solar blinds, etc.) and amenities of the building (such as bike racks, change rooms, etc.) that are available. The guide also outlines DEXUS's approach to waste management as this is a key area where tenant behaviour directly influences the amount of waste that can be diverted from landfill.

### **Sustainability Awareness**

DEXUS has had tenant engagement programs in place since inception, and considers the impact its sustainability performance has on tenants and their ESG strategies and aims to deliver financial savings as well as real sustainability savings.

As part of its 4.5 star NABERS Energy upgrade program, DEXUS actively engaged with its property management, building operations managers and tenants. DEXUS presented building upgrade plans to tenants along the way and sought feedback.

As the program was drawing to a close, property managers along with DEXUS's Operations and Sustainability Manager presented the progress of the sustainability improvement program to tenants in each building.

DEXUS actively promotes tenant energy efficiency programs such as City Switch to tenants, and continues to promote green building committees and programs to engage with tenants. This includes waste and recycling road shows, communications around the Earth Hour campaign and promoting each building's NABERS ratings and building sustainability performance.

Tenancy agreements now include a Green Lease clause as standard. These were included in DEXUS new leases and lease renewals. Take up of the green lease clauses was 75% in FY13.

### **Occupier Events - Earth Hour**

DEXUS engages with all tenants to encourage them to participate in this annual event. DEXUS actively uses this opportunity within its campaign and marketing material to also promote energy efficiency and energy efficiency programs such as City Switch. DEXUS is proud of its total tenant participation rate of 99% in the 2013 Earth Hour campaign.

### Training on waste minimisation

DEXUS has partnered with B.I.C. Services, a pro-active cleaning and waste management supplier who is focused on delivering a best-practice outcome across the DEXUS portfolio. B.I.C. conducts extensive direct engagement with tenants to promote recycling, encourage sustainability awareness, and educate tenants on waste management practices in order to reduce waste to landfill.

B.I.C. has engaged with over 900 foyer and conducted 17 foyer presentations to improve awareness

### Feedback on energy/water/waste consumption

DEXUS informs tenants of the current NABERS ratings for their building via foyer displays and electronic screens in common areas and lifts. At premier buildings, DEXUS provides tenants with energy/water consumption data and charts to demonstrate performance trends.

At 1 Bligh St and 123 Albert St, tenant sustainability committees are formed to discuss current performance trends, and identify and resolve issues that are leading to adverse trends. For these properties, waste is captured floor by floor and reported to tenants.

### **Occupier satisfaction surveys - Tenant Surveys**

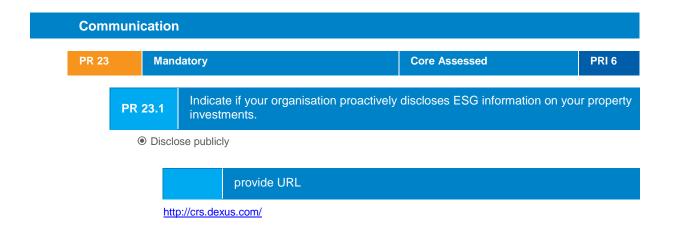
Tenants are surveyed each year on a range of issues to help DEXUS understand how it is performing across a range of metrics. This is a valuable engagement and feedback mechanism to better understand tenant priorities and key issues. The results of tenant surveys are closely monitored to ensure high level of facility management performance and tenant satisfaction.

### Better Building Partnerships, City of Sydney

DEXUS is a founding member of the Sydney-based Better Building Partnerships (BBP). The Partnership aims to develop collaborative solutions and initiatives to overcome sustainability related barriers and achieve substantial improvements in the environmental performance of their buildings.

DEXUS is a member of the BBP leadership group, and five BBP technical working groups, each of which focuses on a specific challenge facing the commercial and public sector property industry: energy, water, waste, tenant engagement and benchmarking.

The tenant engagement working group focuses on collaboration between landlords and tenant groups to develop ideas and opportunities relating to tenant-landlord relationships and improve sustainability outcomes for office fit-outs and daily operations.





orovide URI

### http://crs.dexus.com/performance-pack/14/overview

PR 23.2Indicate if your organisation uses property specific reporting standards to<br/>disclose information related to your property investments' ESG<br/>performance.

☑ Global Reporting Initiative (GRI) Construction & Real Estate Sector Supplement (CRESS)

☑ Other property reporting standards, specify

### Carbon Disclosure Project

 $\hfill\square$  No property specific reporting standards are used

| PR 23.3 |   | Indicate if the level of ESG information you provide to the public is the same as the level you provide to your clients/beneficiaries. |  |  |
|---------|---|--|--|--|
| Yes     | 8   |  |  |  |
|         | PR<br>23.4  | Indicate the type of ESG information that your organisation proactively discloses to the public and/or your clients/beneficiaries.     |  |  |
|         | <ul> <li>ESG information on how you select property investments</li> <li>ESG information on how you monitor and manage property investments</li> <li>Information on your property investments' ESG performance</li> <li>Other, specify</li> </ul> |  |  |  |
|         | PR  | Indicate your organisation's typical frequency of disclosing ESG information to the public and/or your                                 |  |  |

Clients/beneficiaries.
 Quarterly or more frequently

- Semi annually
- Annually

23.5

- $\bigcirc$  Every two years or less frequently
- O Ad-hoc, specify



PR 23.6 Describe the ESG information and how your organisation proactively discloses it to the public and/or clients/beneficiaries. [Optional]

# Disclosing ESG-related information about pre-investment activities (screening, due diligence and investment decision)

As part of its Carbon Disclosure Project submission for 2012 DEXUS disclosed the due diligence process undertaken when acquiring new property assets. DEXUS addresses climate change and sustainability risks of a potential acquisition before purchase through a rigorous due diligence process. This process requires details on the potential acquisition's environmental performance including NABERS Ratings, Green Star ratings, energy and water consumption any climate change impact research or assessments that have been conducted, building upgrade and improvement plans, past energy and water audits undertaken as well as costing required upgrades to the property in line with proposed site performance targets. The building performance will affect DEXUS's procurement decision and investment strategy, both in the short and long term.

# Disclosing ESG-related information about how existing property investments are managed (investment monitoring, active ownership and exits).

As part of its Carbon Disclosure Project submission for 2012 DEXUS disclosed the process of the management of existing property investments by DEXUS. DEXUS's (internal) Corporate Responsibility and Sustainability (CR&S) Committee receives quarterly reports on the results of companywide and property specific assessments and monitors progress in line with action plans developed by line management. The minutes of the CR&S Committee are reviewed by the Board Risk and Sustainability Committee quarterly.

Please refer to the 2013 DEXUS Carbon Disclosure Report for further details (http://crs.dexus.com/crs-library/22/cdp-reports).

### **Disclosing ESG-related information about ESG performance**

DEXUS discloses its ESG related information primarily via the sustainability section of its corporate website (http://crs.dexus.com/). Each year including FY13 DEXUS prepared an Annual Review and Performance data pack, in which DEXUS disclosed Environmental, Social and Governance performance as well as key performance indicators under the Global Reporting Initiative (GRI) G3.1 standard.

Within the Performance data pack, DEXUS disclosed environmental performance at an organisation level, across the six stakeholder groups within its CR&S framework. Additional data for key environmental metrics such as greenhouse gas emissions, energy and water use, is provided by fund and asset type, as well as the current NABERS ratings for each rated property.

Please refer to both documents for further information (links provided below).



### Frequency

Most ESG-related performance indicators are reported on an annual basis, however environmental performance including energy and water consumption and GHG emissions are reported on a quarterly basis within the quarterly investor updates for wholesale funds that are managed by DEXUS.

### Non-disclosure

DEXUS does not hold any mandates that preclude the public reporting of ESG information as part of corporate summaries.

 $\bigcirc$  No

O Disclose to clients/beneficiaries only

 $\bigcirc$  No proactive disclosure to the public or to clients/beneficiaries

### PR 23.7 Additional information. [Optional]

Web links to the DEXUS 2013 Annual Review and Performance Pack:

- 2013 Annual Review: http://dexus.interactiveinvestorreports.com/2013annualreview/
- 2013 Performance Pack: http://crs.dexus.com/performance-pack/14/overview

